OUT IN YOUR WORLD

QLT Inc. Annual Report 2003

Reaching you

QLT is the world leader in photodynamic therapy. A profitable biotech company with solid financial strength. A company that develops products that help people live better lives. We're proud of what we do and of our success on the world stage. It says a lot about the people at QLT. It says a lot about our commitment and focus. And it says a lot about our ability to deliver results that count.

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171%
SINCE JANUARY 2003, OUR SHARE PRICE
HAS INCREASED BY 171%.

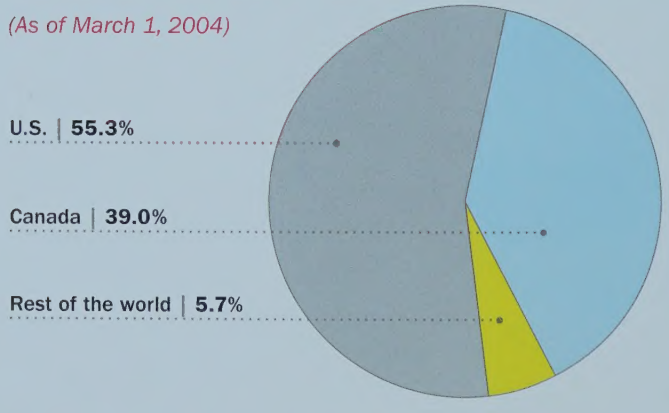
Financial Highlights

(In millions of U.S. dollars, except employees and per share information)

Year Ended December 31,	2003
Revenues	
Revenues from Visudyne®	142.1
Contract research and development	4.6
Royalties on product sales – Photofrin®	——
Revenue from collaborative arrangements	——
Total revenues	146.8
Research and development costs	44.9
Net income (loss)	44.8
Basic net income (loss) per share	0.65
Diluted net income (loss) per share	0.65
Weighted average shares outstanding	68.7
Cash, cash equivalents and short-term investment securities	495.4
Total assets	634.7
Shareholders' equity	433.4
Shares outstanding at end of year (in millions)	68.9
Employees	329

Institutional Shareholders by Region

(As of March 1, 2004)



2002	2001	2000	1999
104.1	79.5	24.9	—
6.4	3.9	5.1	12.7
—	—	0.7	1.9
—	—	1.7	3.1
110.5	83.4	32.4	17.7
42.3	42.9	32.8	32.5
13.6	71.5	4.4	(24.6)
0.20	1.05	0.07	(0.40)
0.20	1.04	0.06	(0.40)
68.2	67.8	66.9	61.5
207.9	162.8	165.4	178.3
345.8	317.9	260.0	222.9
313.5	292.7	236.0	200.0
68.4	68.0	67.7	64.9
336	386	352	253

For complete financial statements and related discussion, please refer to QLT Inc.'s 10-K Annual Report which is available on our Web site or upon request.

Certain statements in this Annual Report are "forward-looking statements" of QLT within the meaning of the Private Securities Litigation Reform Act of 1995, which involve known and unknown risks, uncertainties and other factors which may cause our actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. Forward-looking statements include, but are not limited to, all statements with respect to: our vision, business objectives and future business strategies, our 2004 corporate goals, future operating results, potential growth of our business, our intention to build our pipeline through clinical and preclinical development, in-licensing or other expansion opportunities and our ability to meet sales and earning expectations. These statements are predictions only and actual events or results may differ materially. Factors that could cause such actual events or our actual results to differ materially from any future results expressed or implied by such forward-looking statements include, but are not limited to, the risks, uncertainties and factors described in our Annual Report on Form 10-K and other filings with the U.S. Securities and Exchange Commission. We do not assume any obligation to update such forward-looking statements for subsequent events nor to explain why actual results differed, except as required by law.

Key Company Facts

Business Focus	The discovery, development and commercialization of innovative therapies to treat eye diseases, cancer and dermatology-related conditions.
Specialty	QLT is a world leader in photodynamic therapy—the use of light-activated drugs in the treatment of disease—and has a successful history of drug development, having received regulatory approvals for all drugs that we developed and submitted for approval.
Products successfully brought to market	1. VISUDYNE®, the first drug therapy treatment for wet age-related macular degeneration (AMD), the leading cause of blindness in people over the age of 55. Visudyne is marketed through the QLT/Novartis Ophthalmics alliance. 2. PHOTOFRIN®, the world's first approved photodynamic therapy drug, used in the treatment of a variety of cancers. Photofrin was sold to Axcan Pharma Inc. in 2000.
Profitability	QLT has recorded growing profits for the past four years.
Stock	Traded on Nasdaq under the trading symbol "QLTI" and on the Toronto Stock Exchange under the stock symbol "QLT".
Outstanding shares	69,430,020 (as of February 28, 2004).
Founded	QLT was founded in 1981.
Location	Headquartered in Vancouver, British Columbia.

Our Vision

QLT's vision is to be among the top ten biotechnology companies worldwide in terms of market capitalization by 2010. The company's strategy is straightforward:

- maximize the potential of Visudyne
- build the pipeline through pre-clinical and clinical development, in-licensing and other expansion opportunities
- manage the business for continuous growth □

Corporate Goals

2003 Accomplishments

Each year we focus our energy on reaching specific, measurable goals. We again achieved virtually all of our Corporate Goals in 2003.

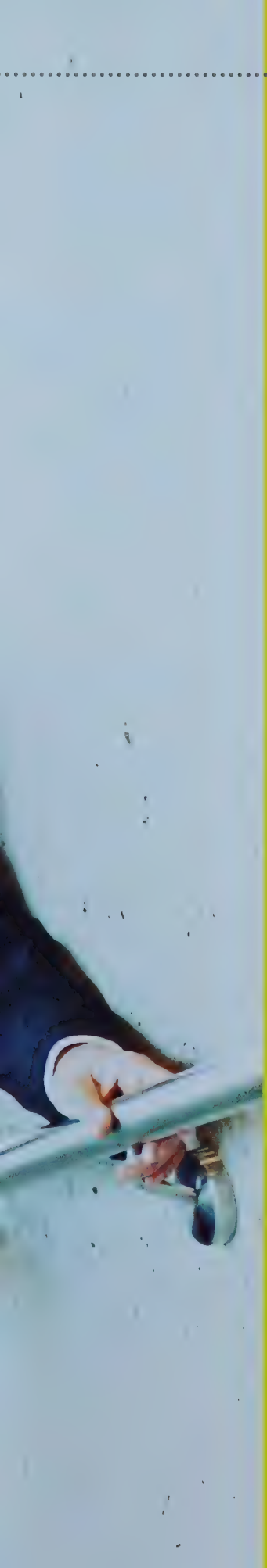
- Achieved financial targets for sales and earnings per share.
- Maximized the Visudyne sales opportunity by completing enrollment in key studies and investigating other potential indications.
- Progressed and expanded the development pipeline by completing the first QLT0074 androgenetic alopecia trial and by initiating the QLT0074 benign prostatic hyperplasia study.
- Strengthened and streamlined the supply chain for key QLT projects and products, resulting in lower cost of goods.
- Progressed towards becoming a fully integrated pharmaceutical company.
- Continued to transition employees to a high performance corporate culture by establishing good goal-setting practices, increasing accountability and recognizing achievements.

2004 Goals

We have set aggressive objectives for 2004 and are working towards meeting those goals.

- Achieve financial targets for sales and earnings per share.
- Expand our pipeline by striving to access outside-marketed or late-stage products as well as earlier-stage programs in our areas of interest.
- Achieve reimbursement for new Visudyne uses in Japan, the European Union and the United States.
- Continue to develop our pipeline with ongoing ocular, prostate and alopecia studies and progress at least one project from research to development.
- Complete construction of our pilot manufacturing facility in Vancouver and initiate manufacture of drug product.
- Continue to support QLT's high performance corporate culture through actions and programs in line with corporate values. □

To Our Shareholders

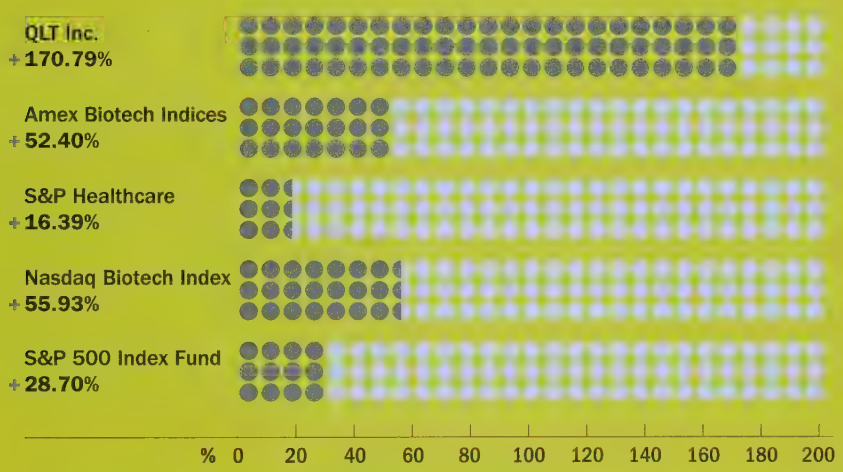


QLT was a true player on the world stage in 2003. Our financial results exceeded expectations on all fronts, leading to our fourth consecutive profitable year. We made huge strides in maximizing the potential of Visudyne. And we continued to advance our internal product pipeline to ensure the company's ongoing growth.

Between January 2003 and January 2004, QLT's stock price nearly tripled, outperforming the leading biotech indices by about 200%. Our market capitalization jumped from almost $600 million to $1.6 billion. This was the result of our dedication to meeting expectations and managing the business to accomplish our objectives. We commit to continuing this rigorous discipline.

QLT's Stock Price Outperformed Leading Indices

(Based on comparison of closing market prices on the Nasdaq exchange on December 31, 2002 and January 30, 2004.)



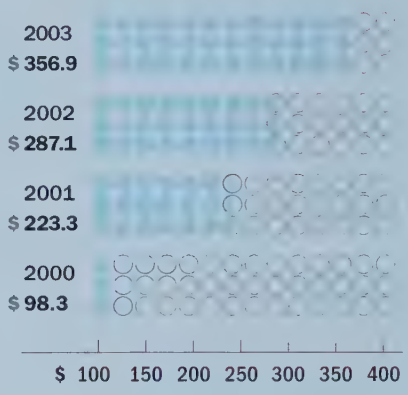
QLT has a solid track record of consistently meeting financial targets. In all four quarters of 2003, we virtually met or exceeded analysts' sales and earnings expectations. The market is recognizing that we will deliver on what we promise.

Our flagship product, Visudyne, certainly delivered on its promise this year. Both geographic expansion and approval for new indications contributed to record sales of $357 million, up 24% over 2002. One of our most significant accomplishments was the culmination of our work in 2003 that led to the announcement by the U.S. Centers for Medicare & Medicaid Services (CMS) of its intent to provide reimbursement for certain patients with the occult and minimally classic forms of wet age-related macular degeneration (AMD). Visudyne therapy will soon be available to treat tens of thousands more people who might otherwise face deteriorating vision leading to blindness.

We've seen a resurgence of confidence in Visudyne in 2003. Already approved in more than 70 countries, Visudyne achieved truly worldwide distribution in 2003 with approval in Japan for all forms of wet AMD.

Visudyne Sales Continue to Hit New Highs

(In millions of U.S. dollars)



We continue to work closely with our alliance partner, Novartis Ophthalmics, to expand the market for Visudyne. A major focus in 2003 was reinitiating growth in the United States, and we accomplished just that with four consecutive quarters of sales growth.

While we are committed to maximizing the potential of Visudyne, we are also focused on the company's long-term growth. Filling the pipeline is a critical priority. In addition to our ongoing Phase III Visudyne trials, we progressed our trials of our new photosensitizer, QLT0074. We had positive preliminary data in 2003 that give us confidence in QLT0074's ability in further clinical trials to safely and effectively treat a form of prostate disease and male

pattern baldness. This drug has the potential to treat these conditions in ways that could offer significant advantages over currently available therapies and opens the door to large markets for QLT.

QLT has the resources to invest in research and development, and we are aggressively pursuing opportunities that will expand our pipeline. We are carefully evaluating both early-stage and late-stage opportunities related to our expertise—ophthalmology, oncology and dermatology—as well as in other promising areas.

Our strong results in 2003 are a tribute to the hard work of our people. I am proud of the tremendously skilled, loyal and committed team we have at QLT. Accomplishments such as the positive decision by the CMS are the result of a true team effort and effective collaboration with government agencies.

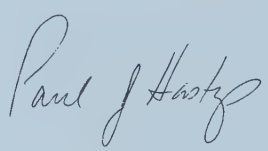
The dedication of our people is exemplified by our founder, Dr. Julia Levy. Her enormous contribution was recognized by the Helen Keller Foundation for Research and Education, which presented the 2003 Helen Keller Prize for Innovation in Eye Care to QLT and Novartis Ophthalmics. This prestigious award recognizes the work of Dr. Levy and Dr. Gustave Huber at Novartis, among others, in the development of Visudyne. Dr. Levy continues to contribute to QLT through her legacy and as an active Board member and chairman of our Scientific Advisory Board.

We continued to build our team and add biopharmaceutical expertise with four important appointments. Boyd Clarke, a highly seasoned CEO with extensive experience in biotechnology, was added to our Board of Directors. Dr. Maurice Wolin joined QLT as Vice President, Preclinical and Clinical Research and Medical Affairs, bringing valuable clinical development experience from his previous role with a leading global pharmaceutical company. The March 2004 appointments of Jim Redenbarger, Vice President, Operations, and Michael Smith, Vice President, Business Development, who are both well experienced executives, reflects our intense focus on building the QLT pipeline and roster of products.

We have introduced several new measures to enhance the independence and performance of our Board of Directors. It is my personal commitment to go beyond regulatory compliance to ensure our corporate governance initiatives reflect Best Practices.

QLT was in your world more than ever in 2003. More people than ever received treatment with Visudyne for AMD, the leading cause of blindness in people over the age of 55. To date, over 350,000 people with AMD have been treated with Visudyne.

Growing sales of Visudyne led to very strong earnings in 2003, but we never lose sight of the fact that increasing sales also reflect a greater impact on people the world over who would otherwise face the prospect of blindness. □



Paul Hastings
President and Chief Executive Officer
March 2004


VISUDYNE IS ONE OF THE MOST SUCCESSFUL
OPHTHALMOLOGY PRODUCTS EVER LAUNCHED.
OUR PRODUCTS WORK.
6:58
CITIZEN
チズン
OLYMPUS
平田商会


APPROVED IN
72
COUNTRIES

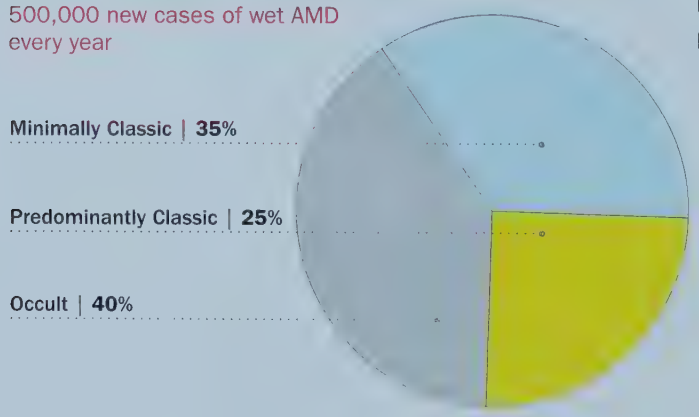
A Rapidly Expanding Market for Visudyne

Visudyne entered new worlds in 2003. Approved now in 72 countries, Visudyne is recognized as the standard of care for wet age-related macular degeneration (AMD). Two of the major developments recently are the Visudyne reimbursement decision in the U.S. and the approval of Visudyne for all forms of wet AMD in Japan.

The U.S. Centers for Medicare & Medicaid Services (CMS) determined that medical evidence supports reimbursement for patients treated with Visudyne for wet AMD with occult and minimally classic lesions that are four disc areas or less in size and have evidence of recent disease progression. As such, the CMS has announced its intent to reimburse the cost of Visudyne therapy for these patients. Visudyne has been approved and reimbursed since 2000 for the predominantly classic segment of the wet AMD market. The CMS decision expands the access of this important vision-saving therapy to thousands of patients who until now had no available therapeutic options.

Global AMD Market

500,000 new cases of wet AMD every year



Health authorities in Japan have now approved Visudyne for treatment of all three forms of wet AMD: predominantly classic, minimally classic and occult. The Japanese market is the third largest pharmaceutical market after the U.S. and Europe. Our efforts are now focused on securing reimbursement to ensure that this treatment is available to the thousands of AMD patients in Japan who previously had no access to treatment for this disease.

A critical milestone this year was the U.S. Food and Drug Administration (FDA) granting of fast track review status for Visudyne therapy for both the occult and minimally classic forms of wet AMD. This reflects recognition of the importance of providing treatment to prevent vision loss and, ultimately, blindness in people with these conditions.

The Visudyne development program advanced on several fronts:

- The Phase II trial for patients with minimally classic AMD, a condition previously considered untreatable, produced 24-month results showing reduced vision loss for patients treated with Visudyne. These findings strengthened Visudyne's role as the standard of care for patients with all forms of wet AMD.

- Based on the success of the Phase II trial and together with our alliance partner, Novartis Ophthalmics, we initiated enrollment in a Phase III trial for patients with minimally classic AMD. This trial is expected to have data for analysis by the end of 2005. After the CMS decision to expand reimbursement to minimally classic patients, we temporarily halted enrollment in U.S. centers and may initiate new centers in Europe. The goal is to get the minimally classic indication added to the Visudyne label globally. This indication accounts for approximately one-third of the global wet AMD market.

- Patient enrollment was completed in the pivotal Phase III trial for patients with the occult form of wet AMD. This second confirmatory Phase III trial for the occult indication is expected to produce data by the end of 2004 and could lead to an expanded label in the U.S. The occult form of AMD is already approved in over 40 countries, including the European Union.

It appears that Visudyne will remain a cornerstone of AMD therapy for some time to come. Furthermore, as new agents become available, the research and medical communities will look for opportunities to use those agents together with Visudyne in a combination approach to therapy, much like the combination therapeutic approaches in other multi-factorial diseases.

There is emerging scientific rationale for combining therapies because Visudyne has a different mechanism of action or works at a different point in the disease process than many of the other agents in development. There are currently several investigator-sponsored trials combining Visudyne with triamcinolone, a generic steroid. These trials are showing significant promise. We will continue to actively explore the potential use of Visudyne in combination therapy.

Visudyne's long-term safety is firmly established. The non-invasive nature of photodynamic therapy reduces the risk of complications. More than 350,000 patients have been treated with Visudyne therapy and there have been no significant safety issues. We recently completed five-year follow-up, with no new safety issues and a confirmation of disease stability over time. Visudyne is widely considered the gold standard in wet AMD treatment in terms of both efficacy and safety.

The future is clear for Visudyne: more growth ahead. While Visudyne's penetration of the U.S. market is strong at approximately 70% of the predominantly classic AMD market, it will soon be reimbursed for the treatment of certain forms of occult and minimally classic AMD, offering significant growth potential. Penetration in the European Union is estimated at between 40 to 50% in people with predominantly classic lesions and the large Japanese market is just now open to us. There are still many more worlds for Visudyne therapy. □

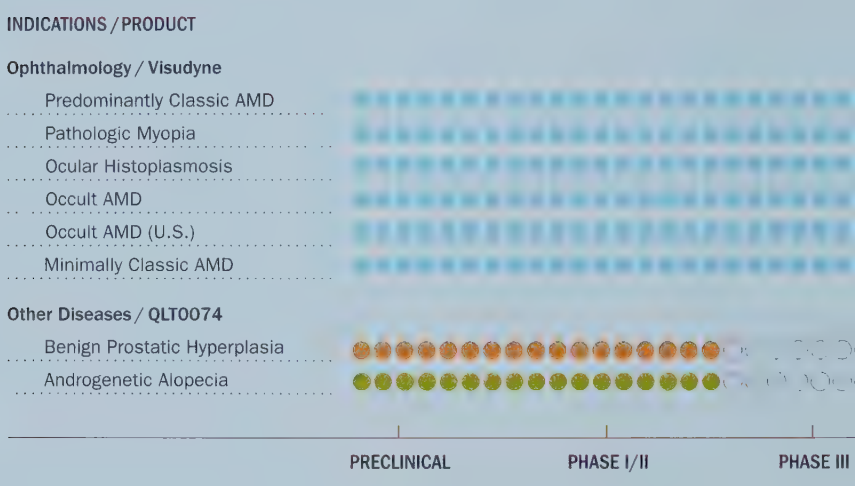
Building the Pipeline

The company is using its expertise in photodynamic therapy to explore treatment of other conditions beyond AMD. QLT0074 is the third photosensitizer we've developed. In 2003 we advanced trials of this light-activated drug in the treatment of benign prostatic hyperplasia (BPH), a form of prostate disease, and androgenetic alopecia, male pattern baldness.

BPH affects approximately 50 million aging men worldwide. QLT0074 offers the potential to treat this condition in a less invasive way than current surgical treatments.

Androgenetic alopecia is the cause of 90% of all hair loss, affecting more than 60 million people in the U.S. alone. Used as a topical treatment, QLT0074 could offer a less

Development Pipeline



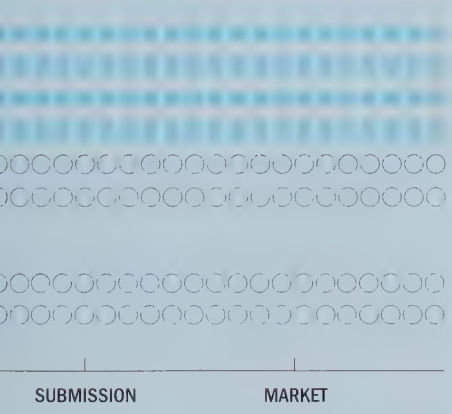
invasive and more effective alternative to surgery, hair transplants and drug therapies.

We are currently conducting Phase II studies for both BPH and androgenetic alopecia. We expect data to be available by the end of 2004, clearing the way for late Phase II or Phase III trials. QLT0074 has the potential to open up large, growing markets for the company.

Preclinical data with QLT0074 indicate promise for other dermatologic indications including moderate to severe cystic acne. We will continue to develop our photosensitizers in this important therapeutic area, which is underserved by current therapies.

The company halted Phase III studies of tariquidar in non-small cell lung cancer when interim data called into question the efficacy and safety of the drug. The trial was designed in such a way that this interim analysis would be available to provide an indication of results. This enabled us to discontinue the trials before more resources were used, resulting in significant savings.

We have also discontinued the Visudyne (verteporfin) trial for the treatment of a form of skin cancer known as multiple basal cell carcinoma. We made the assessment that the length of time and resources required to conduct this trial, combined with the relatively small potential market, do not make this a wise use of our resources. We are reallocating these resources to further our efforts with Visudyne in AMD—an area with considerably more potential and return on investment. □



Strong Business Management

The company's solid financial results in 2003 were also the result of a number of steps taken to manage our resources prudently and further strengthen the business.

Our clinical development process is carefully planned to control our research spending. By building safeguards such as interim analyses into our research programs, we can assess results at an early stage and make decisions before committing additional resources to a project.

As a company that is exposed to changes in certain foreign currency exchange rates, we recognized the need to minimize our exposure to these foreign exchange rate risks. In 2003 we entered into hedging contracts to fix the U.S. dollar value of our forecasted earnings and cash flows. With the significant exchange rate changes in 2003, the hedging program protected approximately $8 million in earnings and cash flows.

We also renegotiated a number of supplier contracts in 2003. These contracts were negotiated based on aggressive assumptions about how quickly Visudyne would be applied in all three wet AMD indications. By revising these contracts to reduce minimum requirements, the company eliminated in excess of $10 million in future exposures.

Identifying an opportunity in the convertibles market, the company made a private placement of convertible notes, adding approximately $172 million to our cash position. With a year-end cash balance of $495 million, we are well positioned to seize opportunities to acquire products to build our pipeline and ensure the long-term growth of the company.

Our acquisition strategy involves exploring opportunities in areas where we've had success and/or have expertise, specifically ophthalmology, oncology and dermatology. We are looking for a range of opportunities including products in clinical development to late-stage and commercial products. While we have the financial capacity to consider many opportunities, we are committed to doing the right deal—one that fits with our company's overall direction and capabilities. It is our intention to develop a sales and marketing capability for products we bring to market and to become a fully integrated biopharmaceutical company, and we certainly have the financial and human resource strength to accomplish that.

QLT's corporate culture provides our people with rewards, growth opportunities and recognition of individuals and teams that demonstrate both positive behaviors and goal achievement. Our Performance Review Process continues to keep our people focused on specific, measurable goals. The company was again named to the "Top 50 Employers in Canada" list, based on employee satisfaction research. This research continues to show a high level of engagement among our employees, a commitment that is truly the foundation of our success and helps achieve an important corporate aim to attract, motivate and retain the highest quality people in our industry. □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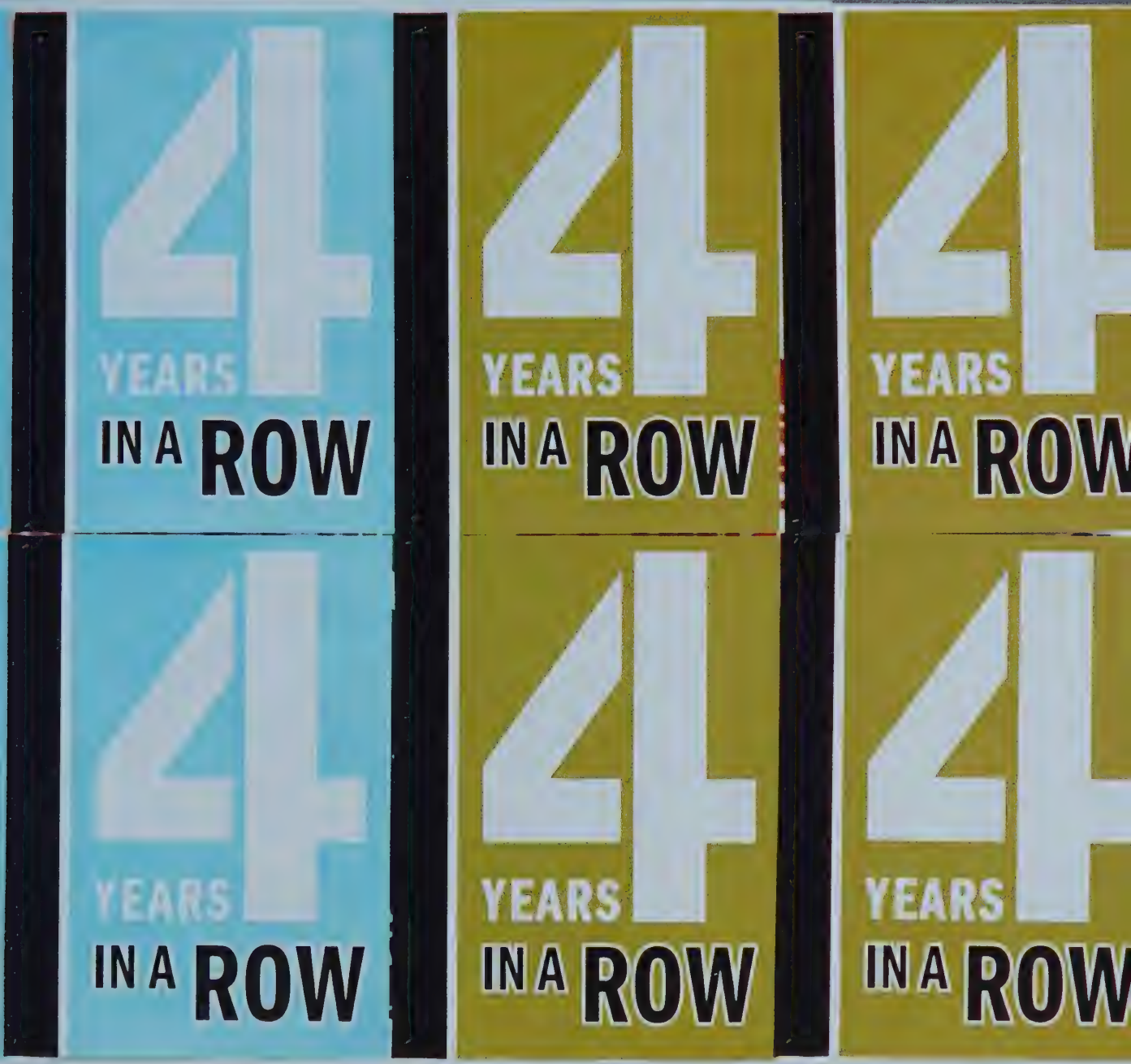

FOUR CONSECUTIVE PROFITABLE YEARS - WE'RE INVESTING IN OUR FUTURE.

Advances in Corporate Governance

The independence and effectiveness of our Board of Directors is vital to our company's success. During 2003, the company launched a number of initiatives, spearheaded by the new Corporate Governance and Nominating Committee of the Board, designed to go beyond compliance and the new legal requirements to achieve Best Practices in the area of corporate governance. In 2003, we made a number of advances that further strengthened the performance and independence of our Board and the accountability of management.

The company's Code of Ethics, which applies to our Directors, Officers and all employees, guides our activities. In 2003 we developed "whistle blowing" procedures that enable employees to anonymously report violations of internal controls, external reporting matters, or other concerns regarding our Code of Ethics.

We have set independence standards for each Board committee. The independent status of all Board members is formally reviewed by the Corporate Governance and Nominating Committee. Only independent directors may serve on committees. The Board also holds a portion of every regular meeting in-camera, without related or non-independent directors.

There is also now a system of self-assessment and peer evaluation in place for the company's Directors, as well as a more formal orientation and nominating process.

We are committed to furthering corporate governance initiatives in an open manner. One of our goals in 2004 is to improve our process for allowing shareholders to communicate with our Board of Directors. All corporate governance initiatives will be disclosed on our Web site, www.qltinc.com. □

In Our World

QLT is also making an impact on our world through our Corporate Sponsorship program. We sponsor initiatives that are aligned with our corporate objectives and fall into the areas of health organizations/ service agencies, science education, our community and the United Way. The company holds a major employee United Way fundraising campaign each year and matches donations dollar for dollar. In 2003, we raised $125,000 for our local United Way.

The Organizations QLT Supported in 2003

British Columbia Library Association

Canadian Guide Dogs for the Blind

CNIB Digital Library Services Campaign

Collingwood Neighborhood House

Dr. Peter Centre Capital Campaign for HIV

Evergreen

Foundation Fighting Blindness

Hastings Elementary School

Hastings Townsite Child Care Society

Mount Pleasant Family Center

Quest Outreach Society

Real Power Youth Society

Room to Read

Science Al!ve

Science Fair Foundation

Science World

SET BC

Squamish Nation Youth Society

St. Paul's Hospital

Together We Can Drug and Alcohol Recovery and Education Society (TWC)

United Way

Vancouver Bach Choir & Portland Hotel Society

Vancouver Food Bank

Vancouver International Children's Festival

Vancouver International Writers Festival

Corporate Directory

DIRECTORS

E. Duff Scott [3,4]
President, Multibanc NT Financial Group

C. Boyd Clarke
Chairman and Chief Executive Officer, Neose Technologies, Inc.

Peter A. Crossgrove [1,2,3]
Chairman, Masonite International Corporation

Paul J. Hastings
President and Chief Executive Officer, QLT Inc.

Ronald D. Henriksen [1,2]
Chief Investment Officer, Twilight Venture Partners, LLC

Julia G. Levy, Ph.D
Executive Chairman, Scientific Advisory Board, QLT Inc.

Alan C. Mendelson [2,3]
Senior Partner, Latham & Watkins LLP

Jack Wood [1]
Executive Vice President, CSL Limited

EXECUTIVE COMMITTEE

Paul J. Hastings
President and Chief Executive Officer

Mohammad Azab, MD
Executive Vice President, Research and Development and Chief Medical Officer

Robert Butchofsky
Vice President, Marketing and Sales

Alain Curaudeau
Senior Vice President, Project Planning and Management

Michael J. Doty
Senior Vice President and Chief Financial Officer

Therese Hayes
Vice President, Corporate Communications and Investor Relations

Linda Lupini
Senior Vice President, Human Resources and Organizational Development

William Newell
Senior Vice President and Chief Business Officer

James Redenbarger
Vice President, Operations

Maurice Wolin, MD
Vice President, Scientific Affairs and Clinical Research

[1] *Member of the Audit Committee*

[2] *Member of the Executive Compensation Committee*

[3] *Member of the Corporate Governance and Nominating Committee*

[4] *Chairman of the Board of Directors*

CORPORATE HEADQUARTERS

887 Great Northern Way
Vancouver, BC Canada V5T 4T5
TEL 604.707.7000
FAX 604.707.7001
WEB **www.qltinc.com**

REGISTERED AND RECORDS OFFICE

Farris, Vaughan, Wills & Murphy
2600 – 700 West Georgia Street
Vancouver, BC Canada V7Y 1B3

TRANSFER AGENT + REGISTRAR OFFICE

Computershare Trust Company of Canada
Stock and Bond Transfer Department
510 Burrard Street
Vancouver, BC Canada V5C 3B9

For change of address, lost stock certificates and other related inquiries, please write to the above address.

INDEPENDENT AUDITORS

Deloitte & Touche, Vancouver, BC Canada

STOCK LISTINGS

The Company's Common Shares are traded on the Toronto Stock Exchange under the symbol QLT and on the Nasdaq Stock Market under the symbol QLTI.

FORM 10-K ANNUAL REPORT

A copy of the Company's Form 10-K Annual Report, as filed with the U.S. Securities and Exchange Commission and the Canadian Securities Administrators, is available on our Web site at **www.qltinc.com**, **www.sedar.com** or upon request from:

QLT Inc.
Corporate Communications Department
887 Great Northern Way
Vancouver, BC Canada V5T 4T5

SHAREHOLDERS ANNUAL MEETING

DATE Wednesday, May 26, 2004
TIME 10:00 am
VENUE Four Seasons Hotel
Vancouver, BC Canada

In memory of our friend and colleague

Ian Patrick

1942 - 2004

Former Vice President of Manufacturing,
Pharmaceutical Development and Technical Operations

QLT Inc.

QLT Inc.

887 Great Northern Way

Vancouver, British Columbia

Canada V5T 4T5

www.qltinc.com

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887 Great Northern Way
Vancouver, British Columbia
Canada V5T 4T5
Telephone: 604-707-7000

ANNUAL REPORT FOR CANADIAN REGULATORY PURPOSES

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

Dated February 28, 2003

**(PLEASE ALSO SEE QLT INC.'S ANNUAL REPORT ON FORM 10-K, WHICH CONT
CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANAL
PREPARED IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLE**

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SELECTED FINANCIAL DATA

Annual Financial Data

Set forth below is selected consolidated financial data for, and as of the end of, each of the years in the five-year period ended December 31, 2002, derived from the consolidated financial statements of the Company, prepared under Canadian generally accepted accounting principles, that have been audited by Deloitte & Touche LLP. The information below is not necessarily indicative of the results of future operations and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and Notes thereto.

Year Ended December 31, *(In thousands of U.S. dollars except per share information)*	2002	2001	2000	1999	1998
CONSOLIDATED STATEMENT OF INCOME DATA					
Total revenues	$ 110,479	$ 83,359	$ 32,847	$ 17,989	$ 8,414
Research and development costs	40,402	30,386	32,802	32,457	22,983
Net income (loss)	12,405	77,754	6,159	(22,476)	(16,042)
Basic net income (loss) per common share	0.18	1.15	0.09	(0.37)	(0.30)
Diluted net income (loss) per common share	0.18	1.13	0.09	(0.37)	(0.30)
CONSOLIDATED BALANCE SHEET DATA					
Cash, cash equivalents and short-term investment securities	$ 207,935	$ 163,473	$ 165,430	$ 178,294	$ 50,977
Working capital	260,127	224,260	201,319	180,723	55,500
Total assets	350,933	324,155	257,068	222,935	67,251
Long-term obligations	-	-	8,716	-	-
Total shareholders' equity	318,637	298,911	233,093	199,993	54,295

Quarterly Financial Data

Set forth below is selected unaudited financial information for the fiscal quarters of 2002 and 2001.

Three Months Ended *(In thousands of U.S. dollars except per share information)*	December 31	September 30	June 30	March 31
2002				
Total revenues	$33,002	$28,712	$24,642	$24,123
Research and development costs	12,204	10,113	10,065	8,019
Net income (loss)	(1,123)	5,599	3,837	4,093
Basic net income (loss) per common share	(0.02)	0.08	0.06	0.06
Diluted net income (loss) per common share	(0.02)	0.08	0.06	0.06
2001				
Total revenues	$27,873	$20,201	$20,408	$14,877
Research and development costs	6,265	10,389	8,729	5,003
Net income (loss)	57,648	7,541	4,284	8,280
Basic net income (loss) per common share	0.85	0.11	0.06	0.12
Diluted net income (loss) per common share	0.84	0.11	0.06	0.12

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS O OPERATIONS

The following information should be read in conjunction with the Company's 2002 consolidated financi statements and notes thereto, which are prepared in accordance with generally accepted accounting principles Canada ("Canadian GAAP"). All amounts following are expressed in U.S. dollars unless otherwise indicated.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion and analysis of financial conditions and results of operations contains forward-looking statements of the Company, within the meaning of the *Private Securities Litigation Reform Act of 1995*, which involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. Forward-looking statements include, but are not limited to, those with respect to: anticipated levels of sales of Visudyne®, including patient and physician demand for Visudyne therapy, anticipated future operating results, anticipated timing for and receipt of reimbursement approvals for Visudyne therapy and other QLT products, the anticipated outcome of pending patent and securities litigation against the Company, the anticipated timing and progress of clinical trials, the anticipated timing of regulatory submissions for expanded uses for Visudyne and for the Company's other products, including tariquidar, and the anticipated timing and receipt of regulatory approvals for expanded uses for Visudyne and for the Company's other products, including tariquidar. These statements are predictions only and actual events or our actual results may differ materially. Factors that could cause such actual events or our actual results to differ materially from any future results expressed or implied by such forward-looking statements include, but are not limited to, the ability and efforts of the Company's alliance partner, Novartis Ophthalmics AG, to commercialise and market Visudyne, the outcome of pending patent and securities litigation against the Company, the Company's ability to maintain and expand its intellectual property position, the timing and success of planned or existing clinical trials for Visudyne and for the Company's other products, including tariquidar; the outcome of the Company's applications for regulatory approvals for expanded uses for Visudyne and for the Company's other products, including tariquidar; the successful development or acquisition of complementary or supplementary products or product candidates, technologies or businesses, as well as the risk factors described in this Management's Discussion and Analysis of Financial Condition and Results of Operations, the Notes to Consolidated Financial Statements, and in the Company's most recent annual report on Form 10K under the headings "Business — Risk Factors" and "Legal Proceedings".

OVERVIEW

The Company is a bio-pharmaceutical company engaged in the development and commercialization of innovative therapies in the fields of ophthalmology, oncology and for other diseases. The Company is a pioneer in the field of photodynamic therapy ("PDT"), a field of medicine that uses photosensitizers (light-activated drugs) in the treatment of disease, and is now also developing pharmaceutical products that do not employ photodynamic therapy.

Visudyne, the Company's commercial product, is a photosensitizer used to treat predominantly classic subfoveal choroidal neovascularization ("CNV") in patients with wet age-related macular degeneration ("AMD"), the leading cause of severe vision loss in people over the age of 50 in North America and Europe, and other ocular conditions. Visudyne has been approved in over 65 countries, including the United States, Canada and the European Union, for the treatment of predominantly classic subfoveal CNV in wet AMD. In addition, Visudyne has been approved in over 50 countries for extended indications, including occult CNV in the European Union, Australia and New Zealand, CNV due to pathologic myopia in the United States and the European Union, and CNV due to presumed ocular histoplasmosis in the United States.

Currently the Company is developing photosensitizers for the treatment of certain forms of non-melanoma skin cancer, benign prostatic hyperplasia and androgenetic alopecia (commonly known as male pattern baldness). In addition to developing photodynamic therapy product candidates, the Company is developing other products by itself and in collaboration with other companies for the treatment of cancer, and other conditions, including tariquidar for multi-drug resistance in cancer. The Company continues to seek growth opportunities and build its

roduct pipeline by developing new indications for Visudyne, progressing with both early and late stage programs, nd pursuing potential strategic acquisitions of products, product candidates, technologies or other businesses.

The Company operates in a single reportable segment. The Company's profitability depends upon the ommercial success of Visudyne in major markets worldwide and the achievement of product development bjectives. As of December 31, 2002, the Company had an accumulated deficit of $42.3 million and total hareholders' equity of $318.6 million.

RITICAL ACCOUNTING POLICIES

In preparing the Company's consolidated financial statements, management is required to make certain stimates, judgements and assumptions that the Company believes are reasonable based upon the information vailable. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the inancial statements and the reported amounts of revenues and expenses during the periods presented. Significant stimates are used for, but not limited to, provisions for non-completion of inventory, assessment of the net ealizable value of long-lived assets, accruals for contract manufacturing and research and development agreements, llocation of costs to manufacturing under a standard costing system, taxes and contingencies. The significant ccounting policies which the Company believes are the most critical to aid in fully understanding and evaluating its eported financial results include the following:

Reporting Currency and Foreign Currency Translation

Effective December 31, 2002, the Company changed its reporting currency to the U.S. dollar from the Canadian ollar. The consolidated financial statements of the Company are translated into U.S. dollars using the current rate nethod. Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. hareholders' equity is translated at the applicable historical rate. Revenue and expenses are translated at a veighted average rate of exchange for the respective years. Translation gains and losses are included as part of the umulative foreign currency translation adjustment which is reported as a component of shareholders' equity.

The financial information for the years ended December 31, 2001 and 2000 is presented in U.S. dollars as if the J.S. dollar had been used as the reporting currency during those periods.

The Company adopted the U.S. dollar as its reporting currency in order to provide information on a more omparable basis with the majority of the companies in the Company's peer group. The Company retained the anadian dollar as its functional currency.

Revenue Recognition

Revenue from Visudyne® consists of the Company's 50% share of pre-tax profits generated from the Company's ollaborative manufacturing, marketing and distribution arrangement with Novartis Ophthalmics, revenue from the ale of bulk manufactured Visudyne product to Novartis Ophthalmics, and reimbursement from Novartis Ophthalmics of third party royalties, and specified other costs. Pre-tax profits are determined by Novartis Ophthalmics and the Company and are derived by taking net sales of Visudyne to third parties, less manufacturing, elling, marketing and distribution costs, and third party royalties. The Company recognizes revenue on product ales only upon final delivery to third parties where collection is reasonably assured. Deferred revenue represents mounts received by the Company for inventory shipped at cost to Novartis Ophthalmics for sale to third parties. roceeds of the QLT-Novartis Ophthalmics Alliance from Visudyne sales are received initially in trust by Novartis Ophthalmics for the equal benefit of Novartis Ophthalmics and the Company and are held until distributed in ccordance with the agreement between the Company and Novartis Ophthalmics.

Cost of Sales

Cost of sales, consisting of expenses related to the production of bulk Visudyne sold to Novartis Ophthalmics, nd royalties on Visudyne sales, are charged against earnings in the period of the related product sale by Novartis Ophthalmics to third parties. The Company utilizes a standard costing system, which includes a reasonable llocation of overhead expenses, to account for inventory and cost of sales, with adjustments being made eriodically to reflect current conditions. Overhead expenses comprise direct and indirect support activities related

to the manufacture of bulk Visudyne and involve costs associated with activities such as quality inspection, quality assurance, supply chain management, safety and regulatory. Overhead expenses are allocated to inventory during each stage of the manufacturing process under a standard costing system, and eventually to cost of sales as the related products are sold by Novartis Ophthalmics to third parties. The Company records a provision for the non-completion of product inventory based on its history of batch completion.

Stock-Based Compensation

The Company has adopted the recommendations of the new CICA Handbook section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, ("section 3870") effective January 1, 2002. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The standard encourages the use of a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities. The Company has adopted the disclosure only provision for stock options granted to employees and directors, as permitted by section 3870.

On December 23, 2002, the Accounting Standards Board ("AcSB") issued an exposure draft of proposed amendments to section 3870, *Stock-Based Compensation and Other Stock-Based Payments,* requiring the recognition of stock-based compensation expenses for all employee stock-based compensation transactions to replace the current standard requiring either the accounting for or disclosure of the effect of employee stock-based compensation expense on earnings. This proposed amendment is to be effective starting January 1, 2004. The Company will evaluate the impact of this proposed amendment on its financial position and results of operations once the final amendments are issued.

Research and Development

Research and development costs consist of direct and indirect expenditures, including a reasonable allocation of overhead expenses, associated with the Company's various research and development programs. Overhead expenses comprise general and administrative support provided to the research and development programs and involve costs associated with support activities such as facility maintenance, utilities, office services, information technology, legal, accounting and human resources. Research and development costs are expensed as incurred, net of related tax credits, unless they meet generally accepted accounting criteria for deferral and amortization. Patent application, filing and defense costs are expensed as incurred and included in general and administrative expenses.

Income Taxes

Income taxes are reported using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards using applicable enacted or substantially enacted tax rates. An increase or decrease in these tax rates will increase or decrease the carrying value of future net tax assets resulting in an increase or decrease to net income.

COMPARISON OF YEARS ENDED DECEMBER 31, 2002 AND 2001

For the year ended December 31, 2002, the Company recorded net income of $12.4 million, or $0.18 per common share. These results compare with net income of $77.8 million, or $1.15 per common share for the year ended December 31, 2001. During the fourth quarter of 2001, the Company recognized future tax assets of $56.4 million, which favourably affected 2001 earnings per share by $0.83. During the fourth quarter of 2002, the Company recorded a restructuring charge of $2.9 million relating to a reduction in workforce, and a writedown of $6.2 million related to the impairment of the Company's equity investment in Kinetek Pharmaceuticals, Inc. These two special charges negatively impacted 2002 earnings per share by $0.12.

Revenues

Revenue from Visudyne®

The Company's revenues from the Visudyne alliance were determined as follows:

(In thousands)	For the year ended December 31, 2002	2001
Visudyne® sales by Novartis Ophthalmics	$ 287,098	$ 223,343
Less: Manufacturing and other costs	(23,028)	(18,066)
Less: Sales, marketing and distribution expenses	(107,293)	(87,622)
Net operating income from Visudyne® sales	$ 156,777	$ 117,656
The Company's 50% share	$ 78,388	$ 58,828
Add: Manufacturing and other reimbursements	25,699	20,694
Total revenue from Visudyne®	$ 104,087	$ 79,522

For the year ended December 31, 2002, approximately 59% of total Visudyne sales by Novartis Ophthalmics were in the United States, compared with approximately 63% in 2001.

For the year ended December 31, 2002, revenue from the Visudyne alliance increased by 31% over 2001. This increase is due primarily to the increased market penetration in key markets, such as France, Germany and Italy, and to ongoing geographic and label expansion throughout the world.

Contract Research and Development Revenue

The Company receives non-refundable research and development funding from Novartis Ophthalmics and other strategic partners which is recorded as contract research and development revenue. For the year ended December 31, 2002, contract research and development revenue of $6.4 million increased by 67% over 2001. This gain resulted from increased development work by the Company on Visudyne programs with Novartis Ophthalmics, and on the tariquidar programs with Xenova Limited.

Costs and Expenses

Cost of Sales

For the year ended December 31, 2002, cost of sales of $19.1 million were 28% higher than 2001 due primarily to increases in Visudyne sales. During the first half of 2002, the Company received FDA approval for a secondary manufacturing site. As a result, the Company reviewed its provision related to non-completion of product inventory and reduced its provision by $1.3 million during the second quarter of 2002.

Research and Development

Research and development ("R&D"), expenditures totalled $40.4 million for the year ended December 31, 2002, up by 33% compared to 2001. This increase in R&D spending is due to increased clinical development costs for the following projects:

- Tariquidar (which commenced two Phase III trials in 2002);
- Multiple basal cell carcinoma ("MBCC") (which also commenced two Phase III trials in 2002);
- QLT0074 (androgenetic alopecia and benign prostatic hyperplasia) (which commenced or prepared to commence Phase I/II trials in 2002); and

- Visudyne in Occult.

Approximately $16.1 million of 2002 R&D expenditures were Visudyne related with the remaining $24.3 million related to the rest of the Company's product pipeline.

Novartis Ophthalmics – Visudyne®

Under the terms of the February 6, 1995 agreement with Novartis Ophthalmics to pursue worldwide joint development and commercialization of photodynamic therapy products, including Visudyne, as potential treatments for certain eye diseases, the Company is responsible for 40% to 50% of R&D costs for Visudyne and Novartis Ophthalmics is responsible for the remaining 50% to 60%. The Company and Novartis Ophthalmics reconcile joint R&D costs, on a quarterly basis, and when it results in funding payments to the Company, the Company records such non-refundable amounts as contract research and development revenue.

On July 23, 2001, the Company and Novartis Ophthalmics announced the expansion of the existing strategic alliance to co-develop photodynamic therapy with verteporfin to treat skin cancer and other dermatological conditions. Under the terms of this expanded co-development agreement, Novartis Ophthalmics is funding future development costs of verteporfin in multiple basal cell carcinoma (a form of non-melanoma skin cancer) to a maximum of $9.7 million, beyond which profits and development costs will be shared equally by the Company and Novartis Ophthalmics. The Company will receive potential milestone payments of $0.6 million upon filing of a submission for marketing approval for the use of verteporfin in an indication within the dermatological field in North America or Europe, and $1.0 million upon receipt of such approval.

Xenova Limited – Tariquidar

In August of 2001, the Company entered into an exclusive development and license agreement for tariquidar, a P-gp inhibitor for multi-drug resistance in oncology, with Xenova Limited ("Xenova"). Under the agreement, the Company assumed the marketing rights of tariquidar for North America and responsibility for continued development of the product in exchange for payment to Xenova of an initial licensing fee of $10.0 million and future milestone payments up to a maximum of $50.0 million. Xenova has agreed to contribute up to $2.0 million towards QLT's development efforts. Upon commercialization, the Company will pay royalties to Xenova in the range of 15% to 22% based on the level of North American sales.

Kinetek Pharmaceuticals, Inc. – Signal Transduction Inhibitors

On June 7, 2001, the Company entered into a long-term research, development and license agreement with Kinetek Pharmaceuticals, Inc. ("Kinetek") to develop compounds known as signal transduction inhibitors for the treatment of ocular, immune system and kidney diseases. The transaction included an equity investment by the Company valued at $6.2 million for 3.14 million common shares of Kinetek stock, plus an option, valued at $1.1 million, to obtain exclusive licenses for up to five compounds for the treatment of ocular, immune system and/or kidney diseases. The value attributable to the common shares was based on the cash consideration paid by third parties for Kinetek common shares on the same date as the Company's investment. Under the terms of the option, the Company has the right to take over the clinical development and commercialization of each compound at a specified stage of development in exchange for milestone payments of up to a maximum of $59.5 million for the five compounds, including royalties and equity investments in Kinetek. During the fourth quarter of 2002, the Company contracted an impairment assessment of Kinetek by an independent valuation consultant. Based on this assessment and the recent events affecting Kinetek, the Company has written off its investment in common shares of Kinetek and recorded a write-down of $6.2 million.

Under this agreement, upon meeting certain conditions, Kinetek may demand that a convertible loan facility of up to $3.3 million be made available by the Company to Kinetek, during the period which commenced January 1, 2002 and ending June 7, 2004 at an interest rate equal to 12% in excess of the Royal Bank of Canada's prime lending rate, compounding quarterly. At December 31, 2002, no funds had been advanced to Kinetek in relation to this convertible loan facility and the Company does not expect that Kinetek is or will be in a position to satisfy the stringent conditions for the loan which are set out in the agreement.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses include overhead expenses associated with the manufacture of bulk Visudyne. For the year ended December 31, 2002, SG&A expenses of $16.1 million were 111% or $8.5 million higher than 2001. SG&A expenses in 2001 were unusually low due to the absorption to inventory of overhead expenses associated with exceptionally high manufacturing levels in the second half of that year. Additionally, higher directors' and officers' (D&O) insurance premiums, salaries, and legal and consulting fees contributed to the increase in SG&A.

Depreciation and Amortisation Expense

Depreciation and amortization expense relates mainly to the depreciation and amortization of property, equipment and intangible assets. For the year ended December 31 2002, depreciation and amortization expense of $5.1 million was made up of depreciation of fixed assets of $3.1 million and amortization of intangibles of $2.0 million. This compares with 2001 depreciation of fixed assets of $2.8 million and amortization of intangibles of $0.7 million. Total depreciation and amortization expense for 2002 was 44% higher than the amount recorded in the same period in 2001. The increase was due primarily to the amortization of the Company's investment in the development and marketing rights of tariquidar acquired from Xenova.

Restructuring

In the fourth quarter of 2002, the Company restructured its operation to reduce operating expenses and concentrate its resources on key product development programs and business initiatives. The Company reduced its overall headcount by 62 people or 17%. The Company provided affected employees with severance and support to assist with outplacement. As a result, the Company recorded a $2.9 million restructuring charge in the fourth quarter of 2002 related to severance and termination costs. The Company expects to complete final activities associated with the restructuring in 2003. At December 31, 2002, restructuring charges of $0.3 million were paid out, and the accrued liability relating to the restructuring was $2.6 million. During January of 2003, $1.3 million of the restructuring charges was paid out, reducing the accrued liability related to the restructuring to $1.3 million.

Investment and Other Income

Net Foreign Exchange (Losses) Gains

Net foreign exchange (losses) gains comprise (losses) gains from the impact of foreign exchange fluctuations on the Company's cash and cash equivalents, derivative financial instruments, foreign currency receivables and foreign currency payables. For the year ended December 31, 2002, the Company recorded net foreign exchange losses of $0.3 million versus a net foreign exchange gain of $3.8 million in the same period in 2001. The losses in the current year were due to losses on the Company's foreign currency cash holdings as well as losses on foreign currency derivative financial instruments. (See Liquidity and Capital Resources – Interest and Foreign Exchange Rates)

Details of the Company's net foreign exchange (losses) gains are as follows:

	For the year ended December 31,	
(In thousands of U.S. dollars)	2002	2001
Cash and cash equivalents	$ (887)	$ 3,370
Foreign exchange contracts	(620)	(50)
Foreign currency receivables and payables	1,229	494
Net foreign exchange (losses) gains	$ (278)	$ 3,814

Interest Income

Interest income of $4.8 million for the year ended December 31, 2002, was 29% lower compared to the same period in 2001. This decrease, despite rising cash reserves, was due to reduced yields on the Company's short-term investments. The Company's treasury policy is focused on minimizing risk of loss of principal.

(Writedown) Gain on Investments

During the fourth quarter of 2002, the Company contracted an impairment assessment by an independent valuation consultant. Based on this assessment and the recent events affecting Kinetek, the Company wrote off its entire $6.2 million investment in Kinetek shares.

During 2001, the Company sold its short-term investment in Axcan Pharma Inc. ("Axcan") for net proceeds of $11.5 million, resulting in a gain of $3.4 million.

Income taxes

Provision for income taxes was $12.7 million for the year ended December 31, 2002, compared to recovery of income taxes of $32.1 million in 2001. On December 31, 2001, the Company reversed its valuation allowances and recognized future income tax assets relating to prior year losses and unclaimed R&D expenses, as the Company's stage of development and operations suggested that it was more likely than not that the tax assets would be realized. As such, beginning in 2002, the Company provided for income tax expenses.

As at December 31, 2002, the Company had $44.0 million of R&D expenditures available as a deduction for tax purposes that have no expiration date. The Company also has non-capital loss carry forward balances for Canadian income tax purposes of $14.3 million that are available to offset future taxable income and will expire at various dates through 2006. The future tax benefit of these R&D expenditures, non-capital losses and other temporary differences creating net future tax assets is estimated to be approximately $28.0 million, and is ultimately subject to final determination by taxation authorities.

The realization of the Company's net future tax assets is primarily dependent on generating sufficient taxable income prior to expiration of any loss carry forward balances. During the fourth quarter of 2002, the Company set up a valuation allowance of $1.1 million against the tax effect of the write-down of its investment in Kinetek. The valuation allowance is reviewed periodically and if the "more likely than not" criterion changes for accounting purposes then the valuation allowance will be adjusted accordingly. (See Note 16 in "Notes to the Consolidated Financial Statements")

COMPARISON OF YEARS ENDED DECEMBER 31, 2001 AND 2000

Results of Operations

For the year ended December 31, 2001, the Company recorded a net profit of $77.8 million, or $1.15 per common share. These results compare with a net profit of $6.2 million, or $0.09 per common share for the year ended December 31, 2000. In the fourth quarter of 2001, the Company recognized future tax assets related to prior years, amounting to $56.4 million, favorably affecting earnings per share for the year by $0.83. Additional details of this tax asset are described below in the section "Income Taxes".

Revenues

Revenue from Visudyne®

The Company's revenue from the sales of Visudyne was determined as follows:

(In thousands)	For the year ended December 31, 2001	For nine months ended December 31, 2000
Visudyne® sales by Novartis Ophthalmics	$ 223,343	$ 94,371
Less: Manufacturing and other costs	(18,066)	(7,757)
Less: Sales, marketing and distribution expenses	(87,622)	(54,029)
Net operating income from Visudyne® sales	$ 117,656	$ 32,585
The Company's 50% share	$ 58,828	$ 16,292
Add: Manufacturing and other reimbursements	20,694	8,638
Total revenue from Visudyne®	$ 79,522	$ 24,930

Revenue from Visudyne of $79.5 million for the year ended December 31, 2001 was 219% higher than the $24.9 million recorded in fiscal 2000. The increase was due primarily to fiscal 2001 being the first full year of commercialization of Visudyne and further regulatory approvals and reimbursement approvals in markets worldwide. For the year ended December 31, 2001, approximately 63% of total Visudyne sales were in the U.S. compared to 66% in 2000.

Contract Research and Development Revenue

The Company receives non-refundable research and development funding from Novartis Ophthalmics which is recorded as contract research and development revenue. For the year ended December 31, 2001, contract research and development revenue of $3.8 million decreased by 25% compared to fiscal 2000 contract research and development revenue of $5.1 million. This is due mainly to Novartis Ophthalmics' assuming a greater proportion of research and development activities for the joint Visudyne program.

Royalties on Product Sales - Photofrin®

In June of 2000, the Company finalized the sale of the worldwide rights to Photofrin to Axcan. Under the terms of the sale, the Company transferred to Axcan the worldwide development, manufacturing and marketing rights to Photofrin in exchange for an initial cash payment of $1.7 million, a $2.7 million deferred payment, 1,283,333 common shares of Axcan and $9.1 million in preferred shares of Axcan which were redeemable within twelve months in cash or additional common shares of Axcan. In addition, the Company is entitled to future milestone payments of up to $10.1 million, payable in cash or preferred shares, based on future events. Concurrent with the sale to Axcan, the Company terminated its agreement with Ligand Pharmaceuticals Inc., the Company's Photofrin marketing and distribution partner in Canada, and agreed to assign its Japanese Photofrin royalty rights under its agreement with Wyeth-Ayerst Japan, Ltd. to Axcan. The Company also re-acquired the exclusive Photofrin marketing and distribution rights in the U.S. and Caribbean from Sanofi-Synthelabo Inc. in exchange for a portion of the consideration received by the Company from Axcan at the closing date and rights to receive a portion of the future consideration payable to the Company by Axcan. The Company recorded earned royalties on sales of Photofrin by these distribution partners up to the closing of the transaction on June 8, 2000. At closing, Axcan assumed responsibility for the marketing efforts for Photofrin and future costs and obligations relating to the Photofrin business. As a result, the Company no longer receives royalty payments from Photofrin sales.

During 2001, Axcan redeemed the preferred shares and the Company sold all of its Axcan common shares. Further details are described below in the section "Investment and Other Income – (Writedown) Gain on Investments".

Revenue from Collaborative Arrangements

During the third quarter of 2000, the Company recorded net milestone revenue of $1.7 million from Axcan resulting from the receipt of FDA approval to market the Diomed 630 nm diode laser co-developed by the Company and Diomed Inc. for use in conjunction with Photofrin.

The extent and timing of any future licensing fees or milestone payments are dependent upon the terms of current and any additional future agreements, including the achievement of development milestones defined therein.

Costs and Expenses

Cost of Sales

During 2001, cost of sales increased by 116% compared to 2000, due primarily to higher Visudyne sales.

Market and Business Development Costs

Market and business development costs represented the Company's equal share of initial costs associated with planning and initiation of an Expanded Access ("EA") Program for Visudyne therapy, net of EA pre-commercial or commercial revenues realized, and marketing and pre-launch costs for the first quarter of 2000.

Effective with the second quarter of 2000, the Company commenced recording its share of revenues from Visudyne as a revenue item on the statement of operations. See "Revenue from Visudyne®".

Research and Development

Investment tax credits of approximately $1.8 million for the year ended December 31, 2001 have been applied as a reduction of R&D costs in the consolidated statement of income. Prior years' investment tax credits of approximately $4.5 million are disclosed separately in the consolidated statement of income and represent the tax benefit expected to be received on investment tax credits relating to R&D expenditures in prior years. On December 31, 2001 the Company determined that it was more likely than not that these benefits would be realized and as a result, the valuation allowance recognized against these tax benefits in prior years was reversed.

R&D costs for the year ended December 31, 2001, excluding investment tax credits of $1.8 million, were $32.2 million. This represented an increase of 2% compared to fiscal 2000 R&D costs of $32.8 million. Approximately $16.2 million of R&D costs were Visudyne related with the remaining $14.2 million related to the Company's product pipeline.

Selling, General and Administrative Expenses

SG&A expenses include overhead expenses associated with the manufacture of bulk Visudyne. For the year ended December 31, 2001, SG&A expenses of $7.6 million were 19% lower compared to fiscal 2000 selling, general and administrative expenses of $8.9 million. A primary contributor to this decline was unusually high absorption to inventory of overhead expenses associated with exceptionally high manufacturing levels in the second half of 2001.

Depreciation and Amortization Expense

Depreciation and amortization expense relates mainly to the depreciation and amortization of property, equipment and intangible assets. For the year ended December 31, 2001, depreciation and amortization expense of $3.5 million was made up of depreciation on fixed assets of $2.8 million and amortization of intangibles of $0.7 million. Total depreciation and amortization expense was 67% higher compared to fiscal 2000 depreciation and amortization expense of $2.1 million, due primarily to the depreciation impact of Phase II of the Company's new facility completed in November 2000 and the amortization of the development and marketing rights for tariquidar acquired from Xenova on August 13, 2001.

Investment and Other Income

Net Foreign Exchange (Losses) Gains

Net foreign exchange (losses) gains comprise (losses) gains from the impact of foreign exchange fluctuations on the Company's cash and cash equivalents, derivative financial instruments, foreign currency receivables and foreign currency payables. For the year ended December 31, 2001, the Company recorded net foreign exchange gains of $3.8 million versus net foreign exchange gains of $4.6 million in the same period in 2000. The gains in both years

were due primarily to gains on the Company's foreign currency cash holdings. (See Liquidity and Capital Resources – Interest and Foreign Exchange Rates)

Details of the Company's net foreign exchange gains are as follows:

	For the year ended December 31,	
(In thousands)	2001	2000
Cash and cash equivalents	$ 3,370	$ 3,846
Foreign exchange contracts	(50)	-
Foreign currency receivables and payables	494	723
Net foreign exchange gains	$ 3,814	$ 4,569

Interest Income

Interest income of $6.8 million for the year ended December 31, 2001, was 36% lower compared to the same period in 2000. This decrease, despite rising cash reserves, was due to reduced yields on the Company's short-term investments. The Company's treasury policy is focused on minimizing risk of loss of principal.

(Writedown) Gain on Investments

The Company's short-term investment in Axcan consisted of Axcan common shares and preferred shares and was acquired as part of the consideration received from the sale of the worldwide rights to Photofrin to Axcan. During 2001, the Company sold its short-term investment in Axcan for net proceeds of $11.5 million, resulting in a gain of $3.4 million.

In June of 2000, the Company finalized the sale of the worldwide rights to Photofrin to Axcan. Under the terms of the sale, the Company transferred to Axcan the worldwide development, manufacturing and marketing rights to Photofrin in exchange for consideration consisting of cash, Axcan preferred shares, Axcan common shares, and a deferred payment valued at $20.2 million. After deducting the cost of re-acquiring from Sanofi Synthelabo Inc. the U.S. and Carribbean rights to Photofrin, the Company recorded a gain of $10.6 million from the sale of Photofrin rights to Axcan.

In November of 2000, the Company finalized the sale of its Optiguide Fiber Optics business to Diomed. Under the terms of the sale, the Company transferred to Diomed its rights to commercialize Optiguide Fiber Optics in exchange for an initial cash payment of $25,000, a $365,000 short-term receivable due within six months after closing, and an $810,000 long-term receivable which bore interest at 5% and was due two years after closing and payable in cash or an equivalent number of shares at Diomed's option pursuant to a formula. (See Consolidated Statement of Cash Flows – Non-cash Investing and Financing Activities.)

Income taxes

The realization of the Company's future tax assets is primarily dependent on generating sufficient taxable income prior to expiration of any loss carry forward balances. During 2001, the Company's development and operations suggested that the "more likely than not" test for accounting purposes had been met and accordingly, the valuation allowance that had been recorded in the past against the net future tax asset was reversed and a recovery of $51.9 million was recognized. The valuation allowance is reviewed periodically and if the "more likely than not" criterion changes for accounting purposes then the valuation allowance will be adjusted accordingly.

As at December 31, 2001, the Company had $42.8 million of research and development expenditures available as a deduction for tax purposes which have no expiration date. The Company also has non-capital loss carry forward balances for Canadian income tax purposes of $43.8 million that are available to offset future taxable income and will expire at various dates through 2006. The future tax benefit of these research and development expenditures, non-capital losses and other temporary differences creating net future tax assets is estimated to be approximately $38.1 million, and is ultimately subject to final determination by taxation authorities. (See Note 16 in "Notes to the Consolidated Financial Statements")

OUTLOOK FOR 2003

Revenues

Total revenues for the Company are expected to range from $122 million to $135 million in 2003, up 10% to 20% from 2002. The Company expects that its share of profit from its alliance with Novartis Ophthalmics (excluding the recovery of manufacturing and other costs) will be approximately 28% to 30% of Visudyne sales for 2003.

Research and Development

The Company expects to increase R&D spending by approximately 20% to 27% over 2002, due mainly to its expenditures associated with its ongoing clinical trials, including the two ongoing Phase III studies for tariquidar in non-small cell lung cancer, continued clinical studies for Visudyne to expand labelling and to optimize the treatment outcome in the approved indications, and additional proof-of-concept studies to progress QLT0074 in both androgenetic alopecia and benign prostate hyperplasia. Other product development, potential product in licensing opportunities, and preclinical and clinical testing of the Company's products under development will also likely contribute to the projected increase in R&D expenditures.

Selling, General and Administrative Expenses

The Company expects to manage SG&A expenses in 2003 to remain flat to slightly below the 2002 level.

Cash

The Company expects to continue to add to its cash reserves throughout 2003, bringing these reserves (including short-term investments) to $244 million or more by the end of the year.

Pilot Plant Facility

During 2003 the Company intends to initiate a project for the construction of a pilot plant facility on 4,000 square feet of its existing facilities for the manufacture of clinical drug supply. The Company expects to make a capital expenditure of approximately $5 million dollars in the facility, during 2003.

EFFECT OF INFLATION

The Company does not believe that inflation has a significant effect on its business.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed operations, product development and capital expenditures primarily through the Company's proceeds from the commercialisation of Visudyne, public and private sales of equity securities, licensing and collaborative funding arrangements with strategic partners and interest income.

At December 31, 2002, the Company had $207.9 million of available cash resources, comprising cash, cash equivalents and short-term investment securities, all of which were invested in liquid, investment-grade securities.

For the year ended December 31, 2002, the Company generated $41.1 million of cash from operations, compared with $22.3 million generated from operations in the same period in 2001. The increase in 2002 was the result of the continued growth of the Company's Visudyne business. The Company's investing activities, excluding net investment in short-term investment securities, used $(2.2 million) in 2002, compared with $(9.3 million) used in the same period of 2001. Investing activities in 2002 consisted of capital expenditures. Investing activities in 2001 consisted of capital expenditures ($3.6 million), purchases of investments ($7.3 million), and the purchase of development and marketing rights ($9.9 million), offset by proceeds from sale of investment in Axcan of $11.5

million. The Company's financing activities provided $3.7 million in 2002 compared to the $(5.8 million) used in 2001. Cash provided by financing activities in 2002 was the result of stock options exercised. The high level of cash used in financing activities in 2001 was the result of the repayment of long-term debt. In the aggregate, cash, cash equivalents and short-term investment securities increased by approximately $44.5 million during the year ended December 31, 2002.

Interest and Foreign Exchange Rates

The Company is exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of the Company's current assets and liabilities. At December 31, 2002, the Company had an investment portfolio consisting of fixed interest rate Canadian dollar securities with an average remaining maturity of approximately 34 days. If market interest rates were to increase immediately and uniformly by 10% of levels at December 31, 2002, the fair value of the portfolio would decline by an immaterial amount. The Company believes that its results of operations and cash flows would not be affected to any significant degree by a sudden change in market interest rates relative to its investment portfolio, given the Company's current ability to hold its fixed income investments until maturity.

The Company enters into foreign exchange contracts to manage exposures to currency rate fluctuations related to its expected future net earnings (primarily in US dollars and EUROs) and cash flows (in U.S. dollars and Swiss francs). At December 31, 2002, the Company has outstanding forward foreign currency contracts as noted below. The net unrealized loss in respect of such foreign currency contracts, as at December 31, 2002, was approximately $0.7 million.

	Maturity Period (to the year)	Quantity (millions)	Average Price (Canadian dollar)
U.S. dollar option-dated forward contracts	2003	U.S. $15.5	Per U.S.$ 1.60297
Swiss franc option-dated forward contracts	2003	CHF 13.0	Per CHF 1.02660

At December 31, 2002, the Company had $207.9 million in cash and short-term investments, primarily Canadian dollar denominated. If the Canadian dollar were to increase in value by 5% against the U.S. dollar, the Company's U.S. dollar denominated cash and short-term investments will experience an unrealized foreign currency translation loss of approximately $0.2 million. The Company purchases goods and services primarily in Canadian dollars and earns a significant portion of its revenues in U.S. dollars. Foreign exchange risk is also managed by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency.

Long-Term Obligation

In the normal course of business, the Company enters into Visudyne supply agreements with contract manufacturers, which expire at various dates to 2006 and total $19.9 million. In addition, the Company had entered into operating lease agreements and clinical development agreements. The minimum annual commitment related to these agreements payable over the next five years are as follows:

Year ending December 31,	$ Million
2003	3.3
2004	0.7
2005	0.7
2006	15.5
2007	-

The Company also has long-term obligations as part of its collaborative arrangements with various strategic partners for research and development purposes. The details of these collaborative arrangements are described in the section "Cost and Expenses – Research and Development".

General

The Company believes that its available cash resources and working capital, and its cash generating capabilities, should be more than sufficient to satisfy the funding of product development programs, and other operating and

capital requirements for the reasonably foreseeable future. Depending on the overall structure of current and future strategic alliances, the Company may have additional capital requirements related to the further development, marketing and distribution of existing or future products.

The Company's working capital and capital requirements will depend upon numerous factors, including: the progress of the Company's preclinical and clinical testing; fluctuating or increasing manufacturing requirements and R&D programs; the timing and cost of obtaining regulatory approvals; the levels of resources that the Company devotes to the development of manufacturing, marketing and support capabilities; technological advances; the status of competitors; the cost of filing, prosecuting and enforcing the Company's patent claims and other intellectual property rights; the ability of the Company to establish collaborative arrangements with other organizations; and the outcome of legal proceedings.

The Company may require additional capital in the future to fund clinical and product development costs for certain product applications or other technology opportunities, and strategic acquisitions of products, product candidates, technologies or other businesses. Accordingly, the Company may seek funding from a combination of sources, including product licensing, joint development and new collaborative arrangements, additional equity and debt financing or from other sources. No assurance can be given that additional funding will be available or, if available, on terms acceptable to the Company. If adequate capital is not available, the Company's business can be materially and adversely affected.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles in Canada and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements may include amounts that are based on the best estimates and judgements of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility principally through the Audit and Risk Committee. The Audit and Risk Committee consists of three independent directors not involved in the daily operations of the Company. The functions of the Audit and Risk Committee are to review the quarterly and annual consolidated financial statements, review the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters, and recommend the appointment of external auditors. The Audit and Risk Committee meets on a quarterly basis with management and the external auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The external auditors, Deloitte & Touche LLP, conducted an independent examination, in accordance with auditing standards generally accepted in Canada, for the years ended December 31, 2002, 2001 and 2000 and expressed their opinion on the consolidated financial statements. Their examinations included a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with generally accepted accounting principles in Canada. The external auditors have free and full access to the Audit and Risk Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

/s/ PAUL J. HASTINGS
President and Chief Executive Officer

/s/ MICHAEL J. DOTY
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

AUDITORS' REPORT

To the Shareholders of

QLT INC.

We have audited the accompanying consolidated balance sheets of QLT Inc. as at December 31, 2002 and 2001 and the consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with Canadian generally accepted accounting principles.

On February 4, 2003, we reported separately to the directors and shareholders of QLT Inc. on financial statements for the same period, prepared in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants
Vancouver, Canada

February 4, 2003

CONSOLIDATED BALANCE SHEETS

As at December 31,	2002	2001
(In thousands of U.S. dollars)		
ASSETS		
Current assets		
Cash and cash equivalents	**$ 128,138**	$ 70,362
Short-term investment securities	**79,797**	93,111
Accounts receivable (Note 2)	**30,186**	25,986
Inventories (Note 3)	**35,892**	38,617
Current portion of future income tax assets (Note 16)	**17,092**	18,904
Other	**1,318**	2,524
	292,423	249,504
Long-term investments and advances (Note 4)	**4,170**	9,227
Property and equipment (Note 5)	**35,281**	36,202
Intangible assets (Note 6)	**8,162**	10,013
Future income tax assets (Note 16)	**10,897**	19,209
	$ 350,933	$ 324,155
LIABILITIES		
Current liabilities		
Accounts payable	**$ 9,960**	$ 10,212
Accrued restructuring charge (Note 14)	**2,631**	-
Other accrued liabilities (Note 9)	**7,027**	7,513
Deferred revenue	**12,678**	7,519
	32,296	25,244
COMMITMENTS (Note 12 and 18)		
CONTINGENCIES (Note 20)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)		
Authorized		
500,000,000 common shares without par value		
5,000,000 first preference shares without par value, issuable in series		
Issued and outstanding		
Common shares	**385,591**	381,865
December 31, 2002 – 68,407,753 shares		
December 31, 2001 – 67,991,179 shares		
Accumulated deficit	**(42,257)**	(54,662)
Cumulative Translation Adjustment	**(24,697)**	(28,292)
	318,637	298,911
	$ 350,933	$ 324,155

Approved by the Board:

/s/ E.D. SCOTT
Director

/s/ JAN DLOUHY
Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31,	2002	2001	2000
(In thousands of U.S. dollars except per share information)			
Revenues			
Revenue from Visudyne® (Note 11)	$ **104,087**	$ 79,522	$ 24,930
Contract research and development (Note 12)	**6,392**	3,837	5,128
Royalties on product sales – Photofrin®	**-**	-	663
Revenue from collaborative arrangements	**-**	-	2,126
	110,479	83,359	32,847
Costs and expenses			
Cost of sales	**19,073**	14,925	6,895
Market and business development costs	**-**	-	3,650
Research and development (Note 13)	**40,402**	30,386	32,802
Selling, general and administrative	**16,092**	7,633	8,892
Depreciation and amortization	**5,102**	3,542	2,121
Restructuring charge (Note14)	**2,867**	-	-
Prior years' investment tax credits not previously recognised	**-**	(4,513)	-
	83,536	51,973	54,360
Operating income (loss)	**26,943**	31,386	(21,513)
Investment and other income			
Net foreign exchange (losses) gains	**(278)**	3,814	4,569
Interest income	**4,836**	6,819	10,738
(Writedown) gain on investments (Note 15)	**(6,204)**	3,366	11,307
Other	**(169)**	233	1,058
Income before income taxes	**25,128**	45,618	6,159
(Provision for) recovery of income taxes (Note 16)	**(12,723)**	32,136	-
Net Income	$ **12,405**	$ 77,754	$ 6,159
Net Income per common share			
Basic	$ **0.18**	$ 1.15	$ 0.09
Fully diluted	$ **0.18**	$ 1.13	$ 0.09
Weighted average number of common shares outstanding (in thousands)			
Basic	**68,228**	67,832	66,875
Fully diluted	**68,432**	68,548	68,739

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, *(In thousands of U.S. dollars)*	**2002**	2001	2000
Cash flows from operating activities			
Net income	**$ 12,405**	$ 77,754	$ 6,159
Adjustments to reconcile net income to net cash by operating activities			
Depreciation and amortization	**5,102**	3,542	2,121
Writedown (gain) on investment (Note 15)	**6,204**	(3,366)	(11,307)
Unrealized foreign exchange gains	**(566)**	(1,065)	(616)
Future income tax expenses (recovery)	**12,723**	(32,136)	-
Benefit of investment tax credits included in operating expenses	**(2,108)**	(6,296)	-
Changes in non-cash operating assets and liabilities			
Accounts receivable and other assets	**(2,592)**	(13,864)	(4,073)
Inventories	**3,234**	(11,732)	(17,031)
Accounts payable	**(341)**	(258)	(4,477)
Accrued restructuring charge (Note 14)	**2,631**	-	-
Other accrued liabilities	**(654)**	3,581	494
Deferred revenue	**5,031**	6,102	(2,880)
	41,069	22,262	(31,610)
Cash provided by (used in) investing activities			
Short-term investment securities	**15,907**	(88,088)	102,099
Purchase of investments	**-**	(7,331)	-
Purchase of property and equipment	**(2,242)**	(3,628)	(18,598)
Proceeds from sale of investment	**-**	11,545	-
Purchase of development and marketing rights	**-**	(9,902)	-
Purchase of U.S. marketing and distribution rights	**-**	-	(591)
Sale of Photofrin® and related rights	**-**	-	881
	13,665	(97,404)	83,791
Cash provided by (used in) financing activities			
Increase in long-term debt	**-**	-	9,189
Repayment of long-term debt	**-**	(8,693)	-
Issuance of common shares	**3,726**	2,928	34,626
	3,726	(5,765)	43,815
Effect of exchange rate changes on cash and cash equivalents	**(684)**	(8,159)	(3,582)
Net increase (decrease) in cash and cash equivalents	**57,776**	(89,066)	92,414
Cash and cash equivalents, beginning of year	**70,362**	159,428	67,014
Cash and cash equivalents, end of year	**$ 128,138**	$ 70,362	$ 159,428
Supplementary cash flow information:			
Interest paid:	**$ 970**	$ 418	$ 503
Income taxes paid:	**-**	-	-

Non-cash investing and financing activities:

1. On January 14, 2000, the holder of 368,069 Series D preference shares having a carrying value of $5.0 million exercised its right to convert them into 736,138 common shares of the Company.

2. On June 8, 2000, the Company sold the worldwide rights to Photofrin in exchange for $1.7 million in cash, 1,283,333 common shares of Axcan with a value of $7.8 million, preferred shares of Axcan with a value of $8.6 million, a deferred payment with a value of $2.2 million, and future milestone payments of up to $9.1 million. Transaction costs of $0.8 million have been recorded as a reduction of cash proceeds (see Note 15 – (Writedown) Gain on Investments).

3. Also on June 8, 2000, the Company re-acquired the marketing and distribution rights to Photofrin in the U.S. and the Caribbean in exchange for $0.6 million in cash, 641,667 shares of Axcan with a value of $3.9 million, Axcan preferred shares with a value of $4.3 million and a right to receive up to $6.8 million in future milestone payments (see Note 15 – (Writedown) Gain on Investments).

4. On November 8, 2000, the Company finalized the sale of its Optiguide Fiber Optics business to Diomed, Inc. ("Diomed"). Under the terms of the sale, the Company transferred to Diomed its rights to commercialize Optiguide Fiber Optics in exchange for an initial cash payment of $25,000, a $365,000 short-term receivable due within six months after closing, and an $810,000 long-term receivable due two years after closing payable in cash or an equivalent number of shares at Diomed's option pursuant to a formula (see Note 15 – (Writedown) Gain on Investments).

5. On February 1, 2002, the Company received 135,735 common shares of Diomed and on August 5, 2002, received 696,059 preferred shares of Diomed Holdings, Inc. as part of the consideration received by the Company from the sale of its Optiguide® FiberOptics business to Diomed, Inc. on November 8, 2000. Under the terms of the sale, Diomed elected to settle the amount owing in shares. The Company recorded this investment at a carrying value of $0.7 million and recorded a loss of $0.4 million on settlement of accounts receivable of $1.2 million.

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Shares		Preference Shares		Cumulative Translation	Accumulated	Total Shareholders'
	Shares	Amount	Shares	Amount	Adjustment	Deficit	Equity
(All amounts except share and per share information are expressed in thousands of U.S. dollars)							
Balance at January 1, 2000	64,855,435	$ 339,312	368,069	$ 5,000	$ (5,742)	$ (138,575)	$ 199,995
Exercise of stock options at prices ranging from CAD $4.50 to CAD $108.60 per share	2,108,634	34,626	-	-	-	-	34,626
Issuance of common shares to Sanofi-Synthelabo Inc. upon conversion of Series D first preference shares	736,138	5,000	(368,069)	(5,000)	-	-	-
Cumulative translation adjustment	-	-	-	-	(7,687)	-	(7,687)
Net income	-	-	-	-	-	6,159	6,159
Balance at December 31, 2000	67,700,207	$ 378,938	-	$ -	$ (13,429)	$ (132,416)	$ 233,093
Exercise of stock options at prices ranging from CAD $6.75 to CAD $48.88 per share	290,972	2,928	-	-	-	-	2,928
Cumulative translation adjustment	-	-	-	-	(14,863)	-	(14,863)
Net income	-	-	-	-	-	77,754	77,754
Balance at December 31, 2001	67,991,179	$ 381,865	-	$ -	$ (28,292)	$ (54,662)	$ 298,911
Exercise of stock options at prices ranging from CAD $9.28 to CAD $39.23 per share	**416,574**	**3,726**	-	-	-	-	**3,051**
Cumulative translation adjustment	-	-	-	-	**3,596**	-	**4,271**
Net income	-	-	-	-	-	**12,405**	**12,405**
Balance at December 31, 2002	**68,407,753**	**$ 385,591**	**-**	**$ -**	**$ (24,697)**	**$ (42,257)**	**$ 318,637**

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. All amounts are expressed in U.S. dollars unless otherwise indicated.

The Company also prepares its consolidated financial statements in accordance with U.S. GAAP. Consolidated financial statements in U.S. GAAP are included as part of the Company's 2002 Annual Report on Form 10-K.

Principles of Consolidation
These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

Long-term investments in which the Company exercises joint control are recorded using the proportionate consolidation method whereby the Company consolidates its proportionate share of the investee's assets, liabilities, revenues, expenditures and cash flows.

Use of Estimates
Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods presented. Significant estimates are used for, but not limited to, provisions for non-completion of inventory, assessment of the net realisable value of long-lived assets, accruals for contract manufacturing and research and development agreements, allocation of costs to manufacturing under a standard costing system, taxes and contingencies. Actual results may differ from estimates made by management.

Reporting Currency and Foreign Currency Translation
Effective December 31, 2002, the Company changed its reporting currency to the U.S. dollar from the Canadian dollar. The consolidated financial statements of the Company are translated into U.S. dollars using the current rate method. Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Shareholders' equity is translated at the applicable historical rate. Revenue and expenses are translated at a weighted average rate of exchange for the respective years. Translation gains and losses are included as part of the cumulative foreign currency translation adjustment which is reported as a component of shareholders' equity.

The financial information for the years ended December 31, 2001 and 2000 is presented in U.S. dollars as if the U.S. dollar had been used as the reporting currency during those periods.

The Company adopted the U.S. dollar as its reporting currency in order to provide information on a more comparable basis with the majority of the companies in the Company's peer group. The Company retained the Canadian dollar as its functional currency.

Segmented Information
The Company is considered to operate in one industry segment and currently generates revenue from a single pharmaceutical product, Visudyne.

Cash, Cash Equivalents and Short-term Investment Securities
Cash equivalents include highly liquid investments with insignificant interest rate risk and original maturities of ninety days or less at the date of purchase. Investments with maturities between ninety days and one year at the date of purchase are considered to be short-term investment securities. Short-term investment securities consist primarily of investment-grade commercial paper (R-1 DBRS rating), bankers' acceptances and certificates of deposit. All short-term investment securities are carried at the lower of cost plus accrued interest and market value. At December 31, 2002 and 2001, carrying value approximated fair value.

Inventories
Raw materials and supplies inventories are carried at the lower of actual cost and replacement cost. Finished goods and work-in-process inventories are carried at the lower of weighted average cost and net realizable value. The Company records a provision for non-completion of product inventory to provide for potential failure of inventory batches in production to pass quality inspection.

Long-term Investments
Investments in affiliates where the Company exercises significant influence and/or has an ownership interest from 20% to 50% are accounted for using the equity method. Other long-term investments are recorded at cost less provision for impairment. The Company reviews its long-term investments for indications of impairment by reference to anticipated cash flows expected to result from the investment, the results of operations and financial position of the investee and other evidence of the net realizeable value of the investment. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and this condition is determined to be other than temporary, the investment would be written down to its estimated net realizable value and the resulting losses are recognized in income in the period. (See Note 15 (Writedown) Gain on Investments)

Property and Equipment
Property and equipment are recorded at cost and amortized as follows:

	Methods	Rates
Buildings	Declining-balance	4%
Office furnishings, fixtures and other	Declining-balance	20%
Research and commercial manufacturing equipment and computer operating system	Declining-balance	20%
Computer hardware	Declining-balance	30%

The Company reviews the carrying value of property and equipment, intangible assets and other long-lived assets for the existence of facts or changes in circumstances that might indicate a condition of impairment. An impairment loss would be recognized when estimates of non-discounted future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. The Company assesses potential impairment of research equipment by determining the extent of continued productive use of the equipment in the conduct of research and development activities. No material impairment relating to property or equipment have been identified by the Company for the years ended December 31, 2002, 2001 and 2000.

Intangible Assets
Licenses, rights and other intangibles are recorded at cost and are amortized on a straight-line basis over their estimated useful lives ranging up to five years.

Revenue Recognition
Revenue from Visudyne® consists of the Company's 50% share of pre-tax profits generated from the Company's collaborative manufacturing, marketing and distribution arrangement with Novartis Ophthalmics AG ("Novartis Ophthalmics"), revenue from the sale of bulk manufactured Visudyne product to Novartis Ophthalmics, and reimbursement from Novartis Ophthalmics of third party royalties, and specified other costs. Under the terms of the collaborative arrangement with Novartis Ophthalmics, the Company is responsible for manufacturing and product supply and Novartis Ophthalmics is responsible for sales, marketing and distribution of Visudyne. Pre-tax profits are determined by Novartis Ophthalmics and the Company and are derived by taking net sales of Visudyne to third parties, less manufacturing, selling, marketing and distribution costs, and third party royalties. Revenue from bulk Visudyne sales to Novartis Ophthalmics is not recognized until the

period of the related product sale and delivery by Novartis Ophthalmics to third parties where collection is reasonably assured. Proceeds of the QLT-Novartis Ophthalmics Alliance from Visudyne sales are received initially in trust by Novartis Ophthalmics for the equal benefit of Novartis Ophthalmics and the Company and are held until distributed in accordance with the agreement between the Company and Novartis Ophthalmics.

Contract research and development revenues consist of non-refundable research and development funding under collaborative agreements with the Company's various strategic partners, including (but not limited to) Novartis Ophthalmics. Contract research and development funding generally compensates the Company for discovery, preclinical and clinical expenses related to the collaborative development programs for certain products and product candidates of the Company, and is recognized as revenue at the time research and development activities are performed under the terms of the collaborative agreements. Amounts received under the collaborative agreements are non-refundable even if the research and development efforts performed by the Company do not eventually result in a commercial product. Contract research and development revenues earned in excess of payments received are classified as contract research and development receivables. (Notes 2 and Note 12)

Royalties on product sales of Photofrin were recognized as earned under the Company's marketing and distribution agreements which were consistent with the period of the product sale by the distributors.

Revenue from collaborative arrangements typically includes initial technology access or licensing fees, milestone payments based on the achievement of specified events, and contract or collaborative research funding. Initial technology access or licensing fees and milestone or other contingent payments are recognized ratably over the period that the related products or services are delivered or obligations as defined in the agreement are performed.

Cost of Sales

Cost of sales, consisting of expenses related to the production of bulk Visudyne sold to Novartis Ophthalmics and royalties on Visudyne sales, are charged against earnings in the period of the related product sale by Novartis Ophthalmics to third parties. The Company utilizes a standard costing system, which includes a reasonable allocation of overhead expenses, to account for inventory and cost of sales with adjustments being made periodically to reflect current conditions. Overhead expenses comprise direct and indirect support activities related to the manufacture of bulk Visudyne and involve costs associated with activities such as quality inspection, quality assurance, supply chain management, safety and regulatory. Overhead expenses are allocated to inventory during each stage of the manufacturing process under a standard costing system, and eventually to cost of sales as the related products are sold by Novartis Ophthalmics to third parties. The Company records a provision for the non-completion of product inventory based on its history of batch completion.

Stock-Based Compensation

The Company has adopted the recommendations of the new Canadian Institute of Chartered Accountants ("CICA") Handbook section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, ("section 3870") effective January 1, 2002. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The standard encourages the use of a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities. The Company has adopted the disclosure only provision for stock options granted to employees and directors as permitted by section 3870.

On December 23, 2002, the Accounting Standards Board ("AcSB") issued an exposure draft of proposed amendments to section 3870, *Stock-Based Compensation and Other Stock-Based Payments,* requiring the recognition of stock-based compensation expenses for all employee stock-based compensation transactions to replace the current standard requiring either the accounting for or disclosure of the effect of employee stock-based compensation expense on earnings. This proposed amendment is to be effective starting January 1, 2004. The Company will evaluate the impact of this proposed amendment on its financial position and results of operations once the final amendments are issued.

Research and Development

Research and development costs consist of direct and indirect expenditures, including a reasonable allocation of overhead expenses, associated with the Company's various research and development programs. Overhead expenses comprise general and administrative support provided to the research and development programs and involve costs associated with support activities such as facility maintenance, utilities, office services, information technology, legal, accounting and human resources. Research and development costs are expensed as incurred, net of related tax credits, unless they meet generally accepted accounting criteria for deferral and amortization. Patent application, filing and defense costs are expensed as incurred and included in general and administrative expenses.

Income Taxes

Income taxes are reported using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards using applicable enacted or substantially enacted tax rates. An increase or decrease in these tax rates will increase or decrease the carrying value of future net tax assets resulting in an increase or decrease to net income.

Derivative Financial Instruments

The Company enters into foreign exchange contracts to manage exposure to currency rate fluctuations related to its expected future net earnings and cash flows denominated in U.S. dollars and Swiss francs. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the statement of income in each reporting period. Details of foreign exchange contracts outstanding at December 31, 2002, are described in Note 17.

Net Income Per Common Share

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income per common share is computed in accordance with the treasury stock method which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common stock from outstanding stock options.

The following table sets forth the computation of basic and diluted net income per common share:

(In thousands of U.S. dollars except per share data)	**2002**	**2001**	**2000**
Numerator:			
Net Income	$12,405	$77,754	$ 6,159
Denominator:			
Weighted-average common shares outstanding	68,228	67,832	66,875
Effect of dilutive securities:			
Stock options	203	716	1,864
Diluted weighted-average common shares outstanding	68,432	68,548	68,739
Basic net income per common share	$ 0.18	$ 1.15	$ 0.09
Diluted net income per common share	$ 0.18	$ 1.13	$ 0.09

Excluded from the calculation of diluted net income per common share for the year ended December 31, 2002 was 7,334,365 shares (2001 – 4,965,562 shares, 2000 – 2,277,972 shares) of common stock from stock options because their effect was anti-dilutive.

Reclassification

Certain comparative figures have been reclassified to conform with the current year's presentation.

NOTE 2. ACCOUNTS RECEIVABLE

(In thousands of U.S. dollars)	2002	2001
Visudyne®	$ 28,636	$ 23,044
Contract research and development	1,128	1,338
Diomed, Inc. (Note 4)	-	1,215
Trade and other	422	389
	$ 30,186	$ 25,986

Accounts receivable –Visudyne is due from Novartis Ophthalmics and consists of the Company's 50% share of pre-tax profit on sales of Visudyne, amounts due from sale of bulk Visudyne to Novartis Ophthalmics and reimbursement of specified manufacturing, royalty and other costs. The Company does not require an allowance for doubtful accounts.

NOTE 3. INVENTORIES

(In thousands of U.S. dollars)	2002	2001
Raw materials and supplies	$ 1,706	$ 497
Work-in-process	22,057	25,882
Finished goods	13,794	14,685
Provision for non-completion of product inventory	(1,664)	(2,447)
	$ 35,892	$ 38,617

Inventories include finished goods with a cost of $12.0 million (2001 - $7.3 million) that have been shipped to and are held by Novartis Ophthalmics. These finished goods will be recognized as costs of manufacturing in the period of the related product sale by Novartis Ophthalmics to third parties and are included in deferred revenue at cost.

The Company records a provision for non-completion of product inventory to provide for potential failure of inventory batches in production to pass quality inspection. Consistent with this policy, during the second quarter of 2002, the Company reduced its provision for non-completion of product inventory by $1.3 million, as a result of the release of validation batches of verteporfin for injection previously on hold for second source supplier qualification.

NOTE 4. LONG-TERM INVESTMENTS AND ADVANCES

(In thousands of U.S. dollars)	2002	2001
Kinetek Pharmaceuticals, Inc.	$ -	$ 6,113
Axcan Pharma Inc.	2,359	2,201
Diomed Holdings, Inc.	679	-
Other	1,132	913
	$ 4,170	$ 9,227

The long-term investment in Kinetek Pharmaceuticals, Inc. ("Kinetek") represents the amount invested by the Company for 3.14 million Kinetek common shares. During the fourth quarter of 2002, the Company assessed the carrying value of its investment and incurred a write-down of $6.2 million. (see Note 15 – (Writedown) Gain on Investments). The long-term receivable from Axcan represents the present value of a $2.5 million receivable relating to the sale of Photofrin (see Note 15 – (Writedown) Gain on Investments) which does not bear interest and is due in cash or an equivalent value of common shares not later than June 8, 2004. The long-term investment in Diomed Holdings, Inc. represents the restricted Class A Convertible Preferred Stock the Company received as consideration for the sale of the Company's Optiguide fiber optic business to Diomed Holdings, Inc.

Other long-term investments consist principally of long-term employee loans which are non-interest bearing with terms ranging from one to five years and will be forgiven if certain conditions are met.

NOTE 5. PROPERTY AND EQUIPMENT

(In thousands of U.S. dollars)	Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Buildings	$ 22,641	$ 2,132	$ 20,509	$ 20,760
Office furnishings, fixtures, and other	4,043	2,025	2,018	2,454
Research equipment	6,283	3,728	2,555	2,728
Commercial manufacturing equipment	2,028	935	1,093	1,084
Computer hardware and operating system	9,528	4,405	5,123	5,241
Land	3,983	-	3,983	3,936
	$ 48,506	$ 13,225	$ 35,281	$ 36,202

NOTE 6. INTANGIBLE ASSETS

(In thousands of U.S. dollars)	2002	2001
Licenses and rights	$ 10,878	$ 10,744
Less: Accumulated amortization	(2,716)	(731)
	$ 8,162	$ 10,013

Licenses and rights consist of: (a) a development option with Kinetek, valued at CAD $1.6 million (U.S. $1.1 million), to obtain exclusive licenses for up to five compounds for certain disease indications and (b) a licensing fee of CAD $15.5 million (U.S. $10.0 million) paid pursuant to a development and license agreement with Xenova for tariquidar, a Phase II P-gp inhibitor for multi-drug resistance in oncology.

NOTE 7. INVESTMENT IN JOINT VENTURE

On September 10, 2001, the Company entered into an agreement with Nippon Fine Chemicals ("NFC") of Japan to form NS & QLT Technologies Ltd. ("NSQ"), a Canadian corporation, to develop and operate a North American Verteporfin Presome plant, to be located in Edmonton, Alberta, for the purpose of securing a secondary supply chain for Verteporfin Presome. Under the terms of the agreement, the common shares of NSQ are owned 50% by the Company and 50% by NFC, based on equal cash contributions by each party. An initial investment of $0.8 million by each party was made in September 2001. During the second quarter of 2002, the Company decided not to continue with the development of NSQ. As a result, all property and equipment of NSQ had been written off. The Company's proportionate share of the write-off was $0.2 million. In December 2002, the Company and its partner in the joint venture, NFC, agreed to dissolve the joint venture. As a result, all the remaining assets in the joint venture have been distributed back to its shareholders.

The following amounts, which represent the Company's proportionate share of the assets, liabilities, revenues and expenditures of NSQ, are included in these consolidated financial statements:

(In thousands of U.S. dollars)	2002	2001
Cash	$ -	$ 699
Property and equipment	-	81
Liabilities	-	12
Revenues	22	4
Expenses	402	17
Net loss	(379)	(13)
Cash (used) in operations	(135)	(13)
Cash (used) in investing activities	(207)	(82)
Cash (used) in financing activities	(772)	(13)

NOTE 8. CREDIT FACILITY

On August 8, 2001, the Company entered into a CAD $3.5 million unsecured credit facility agreement. The first segment of the facility is structured as a CAD $1.0 million revolving operating loan which bears interest at the bank's prime rate for Canadian dollar drawdowns and the U.S. base rate for U.S. dollar drawdowns. As at December 31, 2002, no amount is currently drawn against this portion of the facility. A standby letter of credit in the amount of CAD $2.5 million has been issued under the second segment of the facility. This letter of guarantee is used to secure a land purchase and bears interest at 0.7% per annum.

NOTE 9. OTHER ACCRUED LIABILITIES

(In thousands of U.S. dollars)	2002	2001
Royalties	$ 2,025	$ 1,581
Compensation	3,557	2,201
Manufacturing	568	721
Photofrin clinical trials	-	1,899
Interest	171	464
Other	706	647
	$ 7,027	$ 7,513

NOTE 10. SHARE CAPITAL

(a) Authorized Shares

On May 5, 2000, at the Annual General Meeting of the Company, the shareholders passed a Special Resolution to increase the authorized common share capital of the Company from 100,000,000 common shares to 500,000,000 common shares. There were no other changes to the authorized share capital of the Company during the three-year period ended December 31, 2002.

(b) Shareholder Protection Rights Plan

Effective March 17, 2002, the Company adopted a Shareholder Rights Plan, which was then amended and restated effective April 8, 2002 (the "Rights Plan"), and approved, as amended, by the shareholders of the Company on April 25, 2002. The Rights Plan replaced the shareholder rights plan (the "Initial Rights Plan") that was initially adopted by the Company on March 17, 1992, confirmed by shareholders on April 28, 1992, amended March 31, 1997 and re-confirmed, as amended, by shareholders on May 12, 1997. The Initial Rights Plan expired on March 17, 2002. The Rights Plan will remain in effect, unless earlier

terminated pursuant to its terms, until the 2005 annual meeting of shareholders, and, if reconfirmed at the 2005 annual meeting, the Rights Plan will remain in effect until the 2008 annual meeting of shareholders. Under the Rights Plan, holders of common shares are entitled to one share purchase right for each common share held. Generally, if any person or group makes a take-over bid, other than a bid permitted under the Rights Plan (a "Permitted Bid") or acquires beneficial ownership of 20% or more of the Company's outstanding common shares without complying with the Rights Plan, the Rights Plan will entitle these holders of share purchase rights to purchase, in effect, common shares of the Company at 50% of the prevailing market price. A take-over bid for the Company can avoid the dilutive effects of the share purchase rights, and therefore become a Permitted Bid, if it complies with provisions of the Rights Plan or if it is expressly approved by the Board of Directors.

(c) Stock Options

The Company has in place three incentive stock option plans which are described below. At present the Company may only grant options from one of these plans, namely the 2000 Incentive Stock Option Plan (the "2000 Plan"), described below. The other plans remain in place for so long as options previously granted under those plans remain outstanding. The 2000 Plan provides for the grant of options to purchase common shares to directors, officers and employees of the Company, or any of its subsidiaries, to provide incentive to develop the growth of the Company. The 2000 Plan is administered by the Executive Compensation Committee (the "Committee") appointed by the Board of Directors. Since 2001, vesting of stock options for all employees and directors, which is at the discretion of the Committee, has occurred ratably over three years.

(i) 1995 Incentive Stock Option Plan ("1995 Plan")

The 1995 Plan, which provided for the issuance of up to 4,000,000 common shares, was approved by shareholders in May 1995. The maximum term of any option granted under the 1995 Plan was five years. No option could be granted under the 1995 Plan if it would have resulted in the optionee holding options or rights to acquire in excess of 5% of the issued and outstanding common shares (on a non-diluted basis). The 1995 Plan automatically terminated on February 10, 1998, but options granted before this date may be exercised until they expire in accordance with their original terms. At December 31, 2002, options to purchase an aggregate total of 32,328 common shares were outstanding under the 1995 Plan and are exercisable in the future at a price of CAD $9.28 per common share.

(ii) 1998 Incentive Stock Option Plan ("1998 Plan")

The 1998 Plan, which provided for the issuance of up to 5,000,000 common shares, was approved by shareholders in May 1998. The maximum term of any option granted under the 1998 Plan is five years. Under this Plan, the exercise price of an option was set by the Committee at the time of granting and could not be less than the fair market price of the common shares on the date of the granting. No option could be granted under the 1998 Plan if it would have resulted in the optionee holding options or rights to acquire in excess of 5% of the issued and outstanding common shares (on a non-diluted basis). The 1998 Plan automatically terminated on February 10, 2003 but options granted before the termination of the 1998 Plan may be exercised until they expire in accordance with their original terms. At December 31, 2002, options to purchase an aggregate total of 2,484,435 common shares were outstanding under the 1998 Plan and exercisable in the future at prices ranging between CAD $9.28 and CAD $51.50 per common share.

(iii) 2000 Incentive Stock Option Plan ("2000 Plan")

The 2000 Plan, which provides for the issuance of up to 5,000,000 common shares, was approved by shareholders on May 5, 2000. On April 25, 2002, at the Annual General Meeting of the Company, the shareholders passed a resolution approving an amendment to the 2000 Plan by increasing the maximum number of common shares issuable under the Plan by 2,000,000 common shares from 5,000,000 common shares to 7,000,000 common shares. The 2000 Plan is to replace the 1995 Plan and the 1998 Plan. A guideline currently set in place by the Committee is for the maximum term of any option granted under the 2000 Plan not to exceed five years, subject to the right of the Committee to extend the term in certain circumstances. The exercise price of an option granted is set by the

Committee at the time of granting and may not be less than the fair market price of the common shares on the date of the granting. No option may be granted under the 2000 Plan if it would result in the optionee holding options or rights to acquire in excess of 5% of the issued and outstanding common shares (on a non-diluted basis). The Committee may suspend, amend, or terminate the 2000 Plan at any time without notice, provided that no outstanding option is adversely affected thereby. The 2000 Plan will automatically terminate on March 1, 2010, unless it has previously been terminated by the Committee, but options granted before termination of the 2000 Plan may be exercised until they expire in accordance with their original terms. At December 31, 2002, options to purchase an aggregate total of 5,284,475 common shares were outstanding under the 2000 Plan and exercisable in the future at prices ranging between CAD $12.93 and CAD $108.60 per common share.

Stock option activity with respect to all of the Company's stock option plans is presented below:

(In Canadian dollars)	Number of Shares	Exercise Price Per Share Range
Outstanding at December 31, 1999	4,788,465	$ 4.50 – 60.00
Granted	2,889,989	43.95 – 108.60
Exercised	(2,108,634)	4.50 - 108.60
Cancelled	(76,513)	4.88 – 108.60
Outstanding at December 31, 2000	5,493,307	$ 4.56 – 108.60
Granted	3,381,707	31.40 – 108.60
Exercised	(290,972)	6.75 - 48.88
Cancelled	(431,646)	4.56 – 108.60
Outstanding at December 31, 2001	8,152,396	$ 9.28 – 108.60
Granted	1,047,862	12.93 - 39.23
Exercised	(416,574)	9.28 - 39.23
Cancelled	(982,446)	13.78 – 108.60
Outstanding at December 31, 2002	7,801,238	$ 9.28 – 108.60

The weighted average exercise price of outstanding options as at December 31, 2002 and December 31, 2001 are CAD $50.85 and CAD $53.37, respectively.

Additional information relating to stock options outstanding as of December 31, 2002, is presented below:

	Options Outstanding			Options Exercisable	
Price Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Shares	Weighted Average Exercise Price
Under $25.00	1,410,961	$ 18.93	3.03	658,320	$ 14.74
$25.00- $37.50	1,773,702	31.33	2.55	1,161,148	31.13
$37.51-$50.00	2,668,460	41.60	2.94	1,738,229	42.99
Over $50.00	1,948,115	104.40	2.35	1,773,005	104.32
	7,801,238			5,330,702	

The number of options issued and outstanding under all plans at any time is limited to 15% of the number of issued and outstanding common shares of the Company. As of December 31, 2002, the number of options issued and outstanding under all plans was 11% of the issued and outstanding common shares.

The following pro forma financial information presents the net income and net income per common share had the Company recognized stock-based compensation using a fair value based accounting method.

(In thousands of U.S. dollars except per share information)	2002	2001	2000
Net Income (Loss)			
As reported	$ 12,405	$ 77,754	$ 6,159
Less: Additional employee compensation expense under the fair value method	(25,525)	(25,667)	(43,278)
Pro forma	$ (13,120)	$ 52,087	$ (37,119)
Basic net income (loss) per share			
As reported	$ 0.18	$ 1.15	$ 0.09
Pro forma	(0.19)	0.77	(0.56)
Diluted net income (loss) per share			
As reported	$ 0.18	$ 1.13	$ 0.09
Pro forma	(0.19)	0.76	(0.56)

The pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years.

The weighted average fair value of stock options granted in 2002 was CAD $11.82 whereas the 2001 and 2000 options were valued at CAD $18.16 and CAD $37.63 respectively. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date, under the following weighted average assumptions:

	2002	2001	2000
Dividend Yield	-	-	-
Annualized Volatility	83.1%	81.1%	57.0%
Risk-free Interest Rate	4.4%	4.8%	6.1%
Expected Life (Years)	2.5	2.5	2.5

NOTE 11. REVENUE FROM VISUDYNE®

Under the terms of the Company's development, marketing and distribution agreement with Novartis Ophthalmics, the Company is responsible for Visudyne manufacturing and product supply and Novartis Ophthalmics is responsible for sales, marketing and distribution of Visudyne. The Company and Novartis Ophthalmics share equally the profits realized on revenues from product sales after deductions for marketing costs and manufacturing costs (including third party royalties). Proceeds of the Alliance from Visudyne sales are received initially in trust by Novartis Ophthalmics for the equal benefit of Novartis Ophthalmics and the Company and are held until distributed in accordance with the agreement between the Company and Novartis Ophthalmics.

The Company's revenue from sales of Visudyne was determined as follows:

(In thousands of U.S. dollars)	For the year ended December 31, 2002	For the year ended December 31, 2001	For the nine months ended December 31, 2000
Visudyne® sales by Novartis Ophthalmics	$ 287,098	$ 223,343	$ 94,371
Less: Manufacturing and other costs	(23,028)	(18,066)	(7,757)
Less: Sales, marketing and distribution expenses	(107,293)	(87,622)	(54,029)
Net operating income from Visudyne® sales	$ 156,777	$ 117,656	$ 32,585

The Company's 50% share	$ 78,388	$ 58,828	$ 16,292
Add: Manufacturing and other reimbursements	25,699	20,694	8,638
Total revenue from Visudyne®	$ 104,087	$ 79,522	$ 24,930

For the year ended December 31, 2002, approximately 59% (2001 – 63%, 2000 – 66%) of total Visudyne sales were in the United States, with Europe and other markets responsible for the remaining 41% (2001 – 37%, 2000 – 34%).

Market and business development costs represented the Company's equal share of initial costs associated with planning and initiation of an Expanded Access ("EA") Program for Visudyne therapy, net of EA pre-commercial or commercial revenues realised, and marketing and pre-launch costs for the first quarter of 2000.

Effective with the second quarter of 2000, the Company commenced recording its share of revenues from Visudyne as a revenue item on the statement of income.

NOTE 12. CONTRACT RESEARCH AND DEVELOPMENT

The Company receives non-refundable research and development funding from Novartis Ophthalmics and other strategic partners which is recorded as contract research and development revenue. Details of the Company's contract research and development revenue are as follows:

(In thousands of U.S. dollars)	2002	2001	2000
Visudyne® ocular programs	$ 2,475	$ 2,503	$ 5,128
Visudyne® dermatology programs	2,745	1,318	-
Tariquidar programs	1,000	-	-
Others	172	16	-
Contract research & development revenue	$ 6,392	$ 3,837	$ 5,128

NOTE 13. RESEARCH AND DEVELOPMENT EXPENSE

Investment tax credits for the years ended December 31, 2002 and 2001 of $2.1 million and $1.8 million respectively, have been applied as a reduction of research and development expenditures in the consolidated statement of income. Investment tax credits of approximately $4.5 million are disclosed separately in the 2001 consolidated statement of income and represent the tax benefit expected to be received from investment tax credits relating to research and development expenditures prior to 2001, which the Company has concluded are more likely than not to be realized.

NOTE 14. RESTRUCTURING CHARGE

In the fourth quarter of 2002, the Company restructured its operation to reduce operating expenses and concentrate its resources on key product development programs and business initiatives. The Company reduced its overall headcount by 62 people or 17%. The Company provided affected employees with severance and support to assist with outplacement. As a result, the Company recorded a $2.9 million restructuring charge in the fourth quarter of 2002 related to severance and termination costs. The Company expects to complete final activities associated with the restructuring in 2003. At December 31, 2002, restructuring charges of $0.3 million were paid out, and the accrued liability relating to the restructuring was $2.6 million. During January of 2003, $1.3 million of the restructuring charges was paid out, reducing the accrued liability related to the restructuring to $1.3 million.

NOTE 15. (WRITEDOWN) GAIN ON INVESTMENTS

(In thousands of U.S. dollars)	2002	2001	2000
Writedown of investment in Kinetek Pharmaceuticals Inc.	$ (6,204)	$ -	$ -
Gain on sale of investment in Axcan Pharma Inc.	-	3,366	-
Gain on sale of Photofrin® rights	-	-	10,558
Gain on sale of Optiguide® Fiber Optics rights	-	-	749
	$ (6,204)	$ 3,366	$ 11,307

The Company performs periodic evaluations of its investments to assess for indications of impairment. During the fourth quarter, the Company contracted an impairment assessment by an independent valuation consultant. Based on this assessment and the recent events affecting Kinetek, the Company has written off its entire investment in Kinetek shares and recorded a writedown of $6.2 million.

The Company's investments in Axcan were acquired as part of the consideration received from the sale of world-wide rights to Photofrin to Axcan. The Axcan Series A preferred shares were redeemed on June 8, 2001 by Axcan for an equivalent value of common shares plus a common share dividend totalling $4.5 million in value. In 2001, all of the Axcan common shares were sold for net proceeds of $11.5 million, resulting in a gain on sale of $3.4 million.

On June 8, 2000, the Company finalized the sale of the worldwide rights to Photofrin to Axcan. Under the terms of the sale, the Company transferred to Axcan the worldwide development, manufacturing and marketing rights to Photofrin in exchange for consideration consisting of cash, Axcan perferred shares, Axcan common shares, and a deferred payment with a total value of $20.2 million. After deducting the cost of re-acquiring from Sanofi-Synthelabo Inc the US and Carribbean rights to Photofrin, the Company recorded a gain of $10.6 million from the sale of Photofrin rights to Axcan.

On November 8, 2000, the Company finalized the sale of its Optiguide Fiber Optics business to Diomed. Under the terms of the sale, the Company transferred to Diomed its rights to commercialize Optiguide Fiber Optics in exchange for an initial cash payment of $25,000, a $365,000 short-term receivable due within six months after closing, and an $810,000 long-term receivable which bears interest at 5% and is due two years after closing and payable in cash or an equivalent number of shares at Diomed's option pursuant to a formula.

NOTE 16. INCOME TAXES

The components of the provision for (recovery of) taxes are as follows:

(In thousands of U.S. dollars)	2002	2001	2000
Provision for future income taxes	$11,618	$ 19,720	$ 2,411
Increase in (reduction of) valuation allowance	1,105	(51,856)	(2,411)
Provision for (recovery of) income taxes	$12,723	$ (32,136)	-

Differences between the statutory income tax rates applicable to the Company and the Company's effective income tax rate applied to the earnings consist of the following:

(In thousands of U.S. dollars)	2002	2001	2000
Net earnings before income taxes	$25,128	$45,618	$6,159
Canadian statutory tax rates	39.62%	44.62%	45.62%
Expected income tax provision	$ 9,956	$20,355	$2,810
Increase in (reduction of) valuation allowance	1,105	(51,856)	(2,411)
Valuation allowance on Kinetek write-down	1,229	-	-
Permanent differences and other	433	(635)	(399)
Provision for (recovery of) income taxes	$12,723	$(32,136)	-

The tax effects of temporary differences that give rise to significant components of the future tax assets and future tax liabilities are presented below:

(In thousands of U.S. dollars)	2002	2001
Non-capital loss carry forwards	$ 5,327	$17,368
Research and development expenditures	16,241	16,182
Investment tax credits	5,466	3,574
Kinetek writedown	1,105	-
Other temporary differences	955	1,545
Total gross future tax assets	$29,094	$38,669
Less: valuation allowance	(1,105)	-
Total future tax assets	$27,989	$38,669
Total gross future tax liabilities	-	(556)
Net future tax assets	$27,989	$38,113
Less: current portion	(17,092)	(18,904)
Net long-term portion of future income tax assets	$10,897	$19,209

As at December 31, 2002, the Company has $44.0 million of unclaimed research and development expenditures available for tax purposes which have no expiration date. The Company also had non-capital loss carry forward balances for Canadian income tax purposes of $14.3 million available to offset future taxable income, if any,

and expiring at various dates through to the year 2006. The future tax benefit of these expenditures and non-capital losses is ultimately subject to final determination by taxation authorities.

The realization of the Company's future tax assets is primarily dependent on generating sufficient taxable income prior to expiration of any loss carry forward balances. During 2001, the Company's development and operations suggested that the "more likely than not" test for accounting purposes had been met and accordingly, the valuation allowance that had been recorded in the past against the net future tax asset was reversed. During the fourth quarter of 2002, the Company set up a valuation allowance relating to the writedown of its investment in Kinetek. The valuation allowance is reviewed periodically and if the "more likely than not" criterion changes for accounting purposes then the valuation allowance will be adjusted accordingly.

NOTE 17. FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

As at December 31, 2002 and 2001, the carrying amounts for the Company's Cash and cash equivalents, Short-term investment securities, Accounts receivable, Accounts payable, Accrued restructuring costs and Other accrued liabilities approximated fair value due to the short-term maturity of these financial instruments. With respect to Accounts receivable, Visudyne revenue and contract research and development receivables comprise the aggregate amounts owing from the Company's co-development partner, Novartis Ophthalmics, as at December 31, 2002 and December 31, 2001. Long-term investments and advances comprise primarily the long-term receivable from Axcan relating to the sale of Photofrin and the long-term receivable from Diomed (see Note 15 - (Writedown) Gain on Investments). The carrying value of these receivables approximates fair value, as they bear market interest rates.

The Company purchases goods and services in both Canadian and U.S. dollars and earns most of its revenues in U.S. dollars and EUROs. The Company enters into foreign exchange contracts to manage exposure to currency rate fluctuations related to its expected future net earnings (primarily in U.S. dollars and EUROs) and cash flows (in U.S. dollars and Swiss francs). Foreign exchange risk is also managed by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency. At December 31, 2002, the Company has outstanding forward foreign currency contracts as noted below. The net unrealized loss in respect of such foreign currency contracts, as at December 31, 2002, was approximately $0.7 million.

	Maturity Period (to the year)	Quantity (millions)	Average Price (Canadian dollars)
U.S. dollar option-dated forward contracts	2003	U.S. $15.5	per US $1.60297
Swiss franc option-dated forward contracts	2003	CHF 13.0	per CHF 1.02660

NOTE 18. COMMITMENTS

In the normal course of business, the Company enters into Visudyne supply agreements with contract manufacturers, which expire at various dates to 2006 and total $19.9 million. In addition, the Company has entered into operating lease agreements and clinical development agreements. The minimum annual commitment related to these agreements payable over the next five years are as follows:

Year ending December 31,	$
2003	3.3
2004	0.7
2005	0.7
2006	15.5
2007	-

NOTE 19. SEGMENTED INFORMATION

Details of revenues and property and equipment by geographic segments are as follows:

Revenues[1]

(In thousands of U.S. dollars)	Year ended December 31, 2002	2001	2000
Canada	$ 4,510	$ 2,501	$ 2,517
United States	73,309	61,274	25,923
Europe	30,722	19,056	5,751
Other	1,938	528	(1,344)
	$ 110,479	$ 83,359	$ 32,847

Property and equipment

(In thousands of U.S. dollars)	December 31, 2002	2001
Canada	$ 34,608	$ 35,461
United States	673	741
	$ 35,281	$ 36,202

[1] Revenues are attributable to a geographic segment based on location of the customer for revenue from Visudyne and royalties on product sales, and location of the head office of the collaborative partner in the case of revenues from contract research and development and collaborative arrangements.

NOTE 20. CONTINGENCIES

(a) On April 24, 2000, Massachusetts Eye and Ear Infirmary ("MEEI") filed a civil suit against the Company in the United States District Court for the District of Massachusetts seeking to establish exclusive rights for MEEI as the owner of certain inventions relating to the use of verteporfin as the photoactive agent in the treatment of certain eye diseases including Age Related Macular Degeneration ("AMD"). During 2002 the Court granted summary judgement in favor of QLT, dismissing all counts of MEEI's complaint against the Company in this lawsuit.

The lawsuit (Civil Action No. 00-10783-JLT) relates, in part, to an ongoing dispute involving U.S. Patent No. 5,798,349 (the " '349 Patent") which was issued on August 25, 1998 to the Company, MEEI and Massachusetts General Hospital ("MGH") as co-owners. The complaint alleged breach of contract, misappropriation of trade secrets, conversion, misrepresentation, unjust enrichment, unfair trade practices and related claims and asked that the Court: (i) declare MEEI the owner of certain inventions claimed in the '349 Patent; (ii) enjoin the Company from infringement of those claims or any action that would diminish the validity or value of such claims; (iii) declare that the Company breached an agreement with MEEI to share equitably in any proceeds derived as a result of collaboration leading to the '349 Patent; (iv) impose a constructive trust upon the Company for any benefit that the Company has or will derive as a result of the '349 Patent; and (v) award MEEI monetary relief for misappropriation of trade secrets in an amount equal to the greater of MEEI's damages or the Company's profits from any such misappropriation, and double or treble damages under Massachusetts law.

The Company's counterclaim, filed in 2000, against MEEI and two employees of MEEI, seeks: (i) to correct inventorship on the '349 Patent by adding an additional MGH researcher as a joint inventor; (ii) a declaration that the Company and MGH are joint owners of the '349 Patent; (iii) a determination that MEEI is liable to the Company for conversion and unfair trade practices under Massachusetts law; (iv) an injunction to prohibit MEEI from prosecuting any patent application claiming subject matter already claimed in the '349 Patent; and (v) an award of damages and attorneys' fees.

In 2002, QLT moved for summary judgement against MEEI on all counts of MEEI's complaint in Civil Action No. 00-10783-JLT. The Court granted QLT's motions, thus dismissing all of MEEI's claims in this lawsuit. MEEI does have a right of appeal. The Company does not know whether MEEI will appeal the decision. QLT's counterclaims in this lawsuit remain outstanding.

On May 1, 2001, the United States Patent Office issued United States Patent No. 6,225,303 (the "'303 Patent") to MEEI. The '303 Patent is derived from the same patent family as the '349 Patent and claims a method of treating unwanted choroidal neovasculature in a shortened treatment time using verteporfin. The patent application which led to the issuance of the '303 patent was filed and prosecuted by attorneys for MEEI and, in contrast to the '349 patent, named only MEEI researchers as inventors.

The same day the '303 patent was issued, MEEI commenced a second civil suit against the Company and Novartis Ophthalmics, Inc. alleging infringement of the '303 Patent (Civil Action No. 01-10747-EFH). The suit seeks damages and injunctive relief for patent infringement and unjust enrichment. The Company has answered the complaint, denying its material allegations and raising a number of affirmative defenses, and has asserted counterclaims against MEEI and the two MEEI researchers who are named as inventors on the '303 patent. The Company's counterclaim seeks to correct inventorship of the '303 patent by adding QLT and MGH researchers as joint inventors and asks the court to declare that QLT and MGH are co-owners of the '303 patent. The counterclaim also requests a declaration that QLT does not infringe, induce infringement, or contribute to infringement of the '303 patent, asserting, among other reasons, that QLT and MGH are rightful co-owners of the patent and QLT has a license from MGH of MGH's co-ownership rights under the patent. In addition, the counterclaim seeks a declaratory judgement that the '303 patent is invalid and unenforceable. Finally, the Company's counterclaim seeks an award of monetary damages for breach of material transfer agreements governing MEEI's use of verteporfin, based upon MEEI's failure to notify QLT of MEEI's intent to file the patent application that led to the issuance of the '303 patent to MEEI.

In November 2001, MGH sought and was granted leave to intervene in the action to protect its rights in the '303 patent. MGH's complaint in intervention, like QLT's counterclaim, asks the court to correct inventorship of the '303 patent by adding QLT and MGH researchers as joint inventors of the inventions claimed in the patent and by declaring that MGH is a joint owner of those inventions.

No trial has been scheduled in either case, and none is expected until the latter part of 2003 at the earliest.

The Company believes MEEI's claims are without merit and intends to vigorously defend against such actions and pursue its counterclaims. The outcome of this dispute is not presently determinable or estimatable and there can be no assurance that the matter will be resolved in favor of the Company. If the dispute is not resolved in the Company's favor, the Company may be obliged to pay additional royalties or damages for access to the inventions claimed in the patents named in the suits.

(b) In January and February, 2001, seven proposed securities class actions were filed in the United States District Court for the Southern District of New York on behalf of purchasers of the Company's common shares between August 1, 2000 and December 14, 2000. On May 3, 2001, the court ordered consolidation of the seven actions.

The complaints name as defendants the Company; Julia Levy, former President, Chief Executive Officer and a current Director of the Company; and Kenneth Galbraith, the Company's former Executive Vice President, Chief Financial Officer and Corporate Secretary. The plaintiffs allege that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

The plaintiffs allege that on December 14, 2000, the Company announced that it expected to miss its Visudyne sales estimates for the fourth-quarter 2000, and that in response, the Company's common share price dropped approximately 31%. The plaintiffs claim that the Company's December 14, 2000 statements contradicted prior information issued by the defendants concerning the demand for Visudyne and the Company's prospects. The plaintiffs allege that the defendants overstated the demand for Visudyne, did not properly disclose reimbursement issues relating to Visudyne and that the defendants had no basis in the months preceding the December announcement for their projections of fourth-quarter sales. The plaintiffs further allege that the intent of the individual defendants to mislead investors can be inferred from their sale of a substantial amount of the Company's common shares during the months of August and September 2000. The plaintiffs seek injunctive relief, fees and expenses and compensatory damages in an unspecified amount.

The Company believes that the plaintiffs' claims are without merit and intends to vigorously defend against such actions. However, the outcome of this claim is not presently determinable or estimatable and there can be no assurance that the matter will be resolved in favor of the Company and the other defendants. If the lawsuit is not resolved in the Company's favor, there can be no guarantee that the Company's insurance will be sufficient to pay for the damages awarded to the plaintiffs.

The effect of a negative judgement or likely loss with respect to one or both of the above-mentioned claims, if any, will be recorded in the period it becomes determinable.

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